

## Strategic report

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Profit before tax  
and exceptional items

**£701.2m**

(2018: £761.2m)

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Profit before tax

**£624.6m**

(2018: £649.9m)

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Total dividend per share

**114p**

(2018: 114p)

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Basic earnings per share  
before exceptional items

**201.6p**

(2018: 215.8p)

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Basic earnings per share

**178.9p**

(2018: 183.1p)

---

Total equity

**£3.8bn**

(2018: £3.6bn)

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Assets under management

**500.2bn**

(2018: £407.2bn)

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Net new business

**£43.4bn**

(2018: (£9.5)bn)



Our Annual General Meeting (AGM) will be held at 11.30am on 30 April 2020 at 1 London Wall Place, London, EC2Y 5AU.

A glossary of terms used throughout the Annual Report and Accounts, including details of Alternative Performance Measures, can be found from page 196.

# Our purpose


As a global investment manager we recognise we have an important part to play in shaping the future of all our stakeholders.

Our focus on doing the right thing for our clients, our people and wider society lies at the centre of our culture. We are committed to delivering positive outcomes for all.


## Creating a better future by investing responsibly for our clients

What our purpose means for our stakeholders


**Actively helping our clients achieve their long-term financial goals**

 Read about how we create value for our clients from page 10


**Rewarding our shareholders through the sustained success of our business**

 Read about how we create value for our shareholders from page 18

**Giving fulfilling work to our people and sharing values**

 Read about how we create value for our people from page 30

**Directing our decisions and actions towards supporting wider society**

 Read about how we create value for society from page 36

# An active approach to creating better futures

We actively and responsibly manage investments for a wide range of institutions and individuals, to help them meet their financial goals as they change over time. The world is forever changing but throughout our long history we have continued to adapt our business, keeping our focus on what matters most to our clients, today and in the future.

## Asset Management

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

Our clients include insurance companies, pension schemes, sovereign wealth funds, distributors, financial advisers and fund platforms. We manage private assets, institutional portfolios, mutual funds and client solutions.

We believe that the key to delivering positive outcomes lies in gathering highly talented people who bring a diverse range of thoughts and ideas. Our 42 investment teams in 35 global locations actively manage investments across a range of asset classes. Our approach allows us to channel our resources into positive outcomes for our clients.

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

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

Contribution to Group net income

**£1,781.2m**

## Wealth Management

We provide a wide range of wealth management services, which focus on preserving and growing our clients' wealth. Our strategic ambition is to provide wealth management services across the wealth spectrum in the UK and for high net worth clients in the Channel Islands, Switzerland and Asia.

Our business has three key components:

Cazenove Capital (in the UK and Channel Islands) and Schroders Wealth (in Switzerland, Singapore and Hong Kong) offer bespoke discretionary and advisory investment services, wealth planning and banking to private clients, family offices and charities.

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

This year we launched our joint venture with Lloyds Banking Group plc (LBG), branded Schroders Personal Wealth. This business aims to build a leading position in financial planning for the UK affluent segment, drawing on referrals from LBG and the investment expertise of Schroders.

Contribution to Group net income

**£309.6m**

## Infrastructure

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

## Group

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

 Read more about how our business creates value from our business model on pages 10-11.

# A diversified strategy for growing our business

We are committed to delivering long-term value for all our stakeholders. Our approach is underpinned by a diversified business model which builds in resilience to changing economic conditions and is combined with an emphasis on three strategic opportunities for growth.

## Strategic opportunities



### Growing Asset Management

Increasingly we are providing complete solutions to help clients achieve their financial goals, rather than being solely a component provider. There is value in building relationships based on these solutions as they are typically longer-term in nature and improve our client longevity. We expect growth from an increasingly diversified global footprint and see opportunities in Americas and Asia Pacific. Developing a range of innovative products that achieve positive outcomes for clients is essential and we invest seed capital to support these ideas.



### Building closer relationships with our end clients

There has historically been a high level of intermediation between investment managers and their end clients, which can increase client turnover and the fees they pay. To reduce the impact of this and increase client longevity, we are working to build closer relationships with our end clients, particularly in Wealth Management. We have developed several key strategic initiatives to support this objective. These include the launch of Schroders Personal Wealth in the UK and the acquisition of the wealth management business of ThirdRock in Singapore.



### Expanding capabilities in Private Assets

As the number of publicly listed companies falls, we are seeing increased demand from clients for access to private markets. Broadening our investment expertise and product offering within Private Assets remains a strategic focus for us. In recent years we have made a number of successful acquisitions to add further Private Assets capabilities to our product set, including private equity micro finance and impact investing, securitised credit and real estate.

## Delivered through five business priorities

**Build and maintain long-term client relationships**

**Offer a range of innovative products**

**Deliver consistent outcomes for clients**

**Invest in leading technology**

**Develop and retain talented people**



Read more about our strategy on pages 16-17.

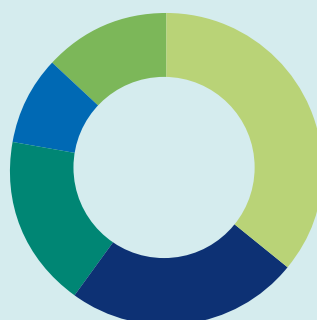
## Assets under management (£500.2bn)

### Geographies



■ UK  
■ Asia Pacific  
■ Europe, Middle East and Africa  
■ Americas

### Asset classes



■ Equities  
■ Multi-asset  
■ Fixed Income  
■ Private Assets & Alternatives  
■ Wealth Management

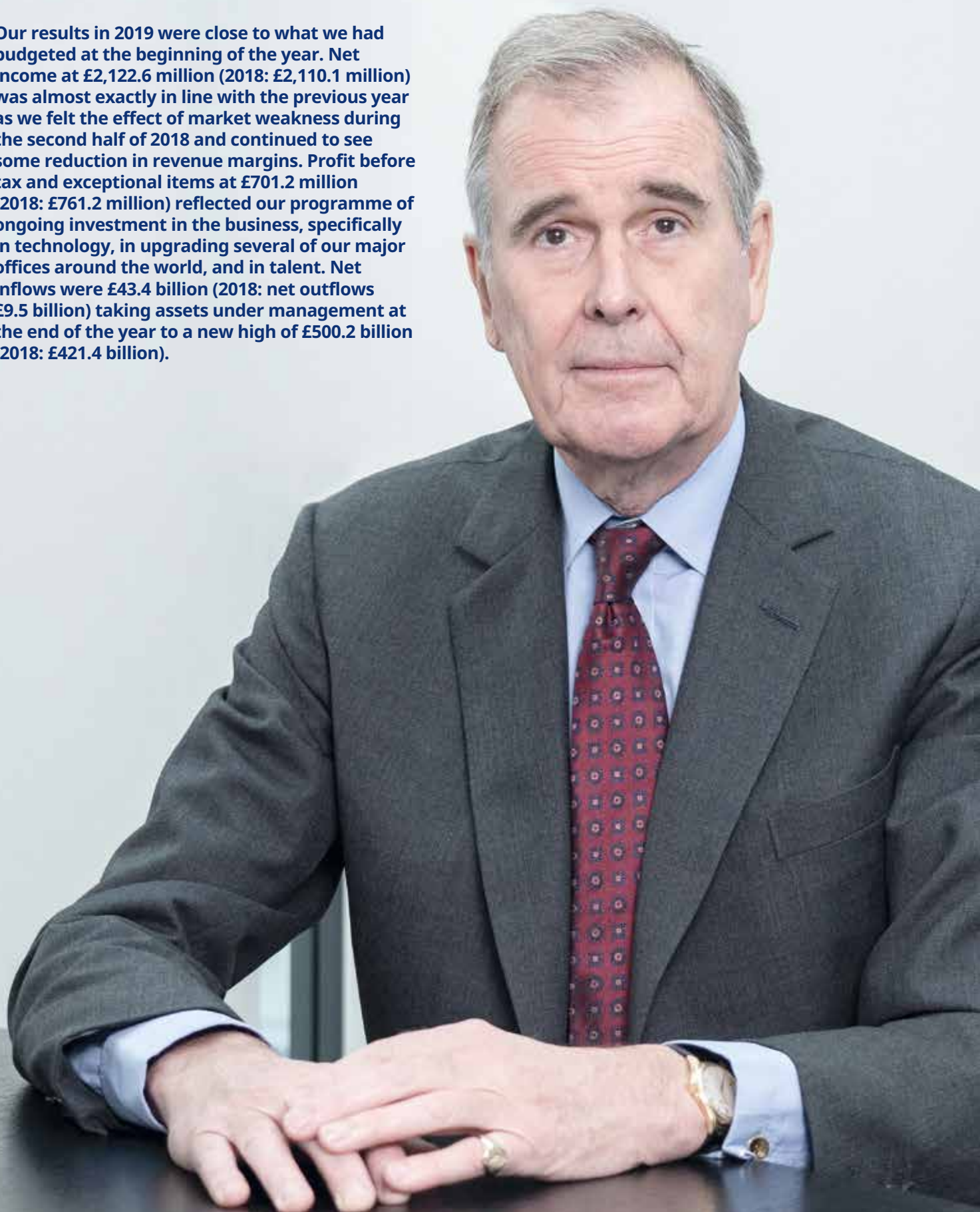
### Business areas



■ Private Assets & Alternatives  
■ Solutions  
■ Mutual Funds  
■ Institutional  
■ Wealth Management

# Investing for the future

Our results in 2019 were close to what we had budgeted at the beginning of the year. Net income at £2,122.6 million (2018: £2,110.1 million) was almost exactly in line with the previous year as we felt the effect of market weakness during the second half of 2018 and continued to see some reduction in revenue margins. Profit before tax and exceptional items at £701.2 million (2018: £761.2 million) reflected our programme of ongoing investment in the business, specifically in technology, in upgrading several of our major offices around the world, and in talent. Net inflows were £43.4 billion (2018: net outflows £9.5 billion) taking assets under management at the end of the year to a new high of £500.2 billion (2018: £421.4 billion).





## Dividend

Our policy is to provide shareholders with a progressive and sustainable dividend, maintaining a pay out ratio of around 50 per cent. The Board will recommend to shareholders at the Annual General Meeting an unchanged final dividend of 79 pence per share (2018: 79 pence), taking the full year dividend to 114 pence per share (2018: 114 pence). The final dividend will be paid on 7 May to shareholders on the register at 27 March 2020.

## Our role as asset managers

As one of the largest asset management companies in Europe we have an important role to play in enabling a broad range of investors to meet their financial goals. Whether our clients are pension funds, insurance companies, sovereign wealth funds or individual investors from around the world, we are mindful of the fact that successfully fulfilling our mandate in relation to the £500 billion with which we have been entrusted will have a direct impact on individuals' lives.

We channel capital to companies and governments to support them in investing for growth and actively engage with the companies in which we invest in relation to strategy, risks, management succession, governance and environmental impact. We meet the management of more than 4,000 companies every year to assess progress in these areas.

Our business philosophy is based on the belief that if we deliver for our clients, by offering them investment capabilities which successfully protect and enhance their capital, then we will deliver for our shareholders by creating long term shareholder value. We also recognise that we have a wider range of stakeholders including our counterparties and suppliers, society as a whole and our employees. We take that responsibility very seriously and apply the same standards to the management of our own business as we do to the companies in which we invest.

## The Board

We announced in November 2019 that Nichola Pease was stepping down from the Board to take up another opportunity. Nichola had been on the Board for nearly eight years and I would like to thank her for her significant contribution over that time as a member of the Board, as Chair of the Remuneration Committee and as a member of the Audit and Risk Committee.

Matthew Westerman will join the Board as a Non-executive Director on 9 March. Matthew brings significant experience of global financial markets after a distinguished career in investment banking and we look forward to his contribution.

## Our commitment to our stakeholders

### Section 172 Statement

Section 172 of the Companies Act 2006 requires the directors to act in the way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this s.172 requires a director to have regard, amongst other matters, to:

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.



Further information can be found on pages 61 - 63 of this Report.

Philip Mallinckrodt will retire as a Director at the conclusion of the Annual General Meeting on 30 April having served on the Board for 11 years. Over a total of 24 years he served in a number of senior executive positions and in the last three years as a non-executive Director. I would like to thank Philip for his commitment and contribution to Schroders.

Our stated position is that having two members of the family serving on the Board benefits the company and all its shareholders in aligning interests and reinforcing long term thinking. Consequently, the Nominations Committee consulted with the trustees of the family trusts and other members of the principal shareholder group. Following those consultations, the trustees of the family trusts confirmed their support for Claire Fitzalan Howard to join the Board. The Nominations Committee decided to recommend to the Board her appointment as a Director. Subject to her election by shareholders at the Annual General Meeting, Claire Fitzalan Howard will join the Board and the Nominations Committee at the conclusion of the meeting.

Following these appointments Schroders will have a majority of independent Directors on the Board, in line with our policy.

## Our people

Schroders' success stems from our reputation and values, our diversified business model, our financial strength and, above all, our more than 5,500 people. We remain committed to developing the exceptional pool of talent we have at Schroders around the world and to providing an environment that is open, collaborative and based on merit.

2019 was another year of good progress in most areas of our business and, on behalf of the Board, I would like to thank all our employees for their contribution to this success.

### Michael Dobson

Chairman

# Investing for growth through the cycle

2019 was another year of progress for Schroders towards our key strategic objectives. We have continued to invest for growth across our business and have delivered good results against a market backdrop which, despite picking up in the fourth quarter, remains uncertain.





## Evolving industry trends in an uncertain environment

In previous years, I have discussed the many well-publicised trends and challenges facing our industry. None of these have abated through 2019. Passive products, untested in volatile markets or persistent downturns, continue to attract client flows. Top line margin pressure demands a rigorous approach to efficiency. The number of public companies continues to shrink with increased regulatory burden and public scrutiny, restricting the opportunities for active managers. Our future success will be defined by how we react to these trends.

Our strategy remains to invest for growth. We see opportunities in wealth management, in private markets, in client solutions and in rapidly growing markets such as China. We have increased our investment in all of these areas during the year and have seen the benefit of these growth initiatives offsetting the headwinds elsewhere, particularly in equities. We have continued to invest heavily in creating a strong technology platform that will deliver both an enhanced client experience and greater efficiency.

Sustainability remains a key focus for us as we strive for the highest possible standards within both our own company and those in which we invest. We have strengthened our capabilities through proprietary tools and a growing team, while expanding into impact investing through the acquisition of a majority stake in BlueOrchard.

Earlier in 2019, I set out the three strategic areas that we believe will drive our future growth. These are to grow the Asset Management business, to build closer relationships with our end clients and to expand our capabilities in Private Assets.

Each of the decisions, acquisitions and investments we made this year have been designed to drive growth in at least one of these strategic areas. The progress we have made towards each of these strategic objectives is discussed in more detail on the following page.

We have also increased the granularity of our reporting to help give more clarity on the changes we are making.

Towards the end of 2018, investor sentiment turned sharply negative. Increasing levels of macro and political uncertainty across the globe led to a "risk-off" environment, particularly for retail clients, which continued into 2019.


As a result, the asset management industry has seen a general trend of outflows from equities and other risk assets. Despite this, we generated net inflows in all asset classes, with particular client demand for Fixed Income (£19.1 billion), Multi-asset (£4.9 billion) and Private Assets & Alternatives (£2.8 billion) strategies.

Wealth Management continued to generate strong inflows, with net new business of £14.7 billion. There was positive client demand from both Cazenove Capital and Benchmark Capital, as well as £12.6 billion from Schroders Personal Wealth.

Across the Group, we saw record net inflows in 2019 of £43.4 billion (2018: net outflows of £9.5 billion) and grew AUM to a new high of £500.2 billion (31 December 2018: £407.2 billion).

We generated net income before exceptional items of £2,124.8 million (2018: £2,123.9 million) and achieved a ratio of total costs to net income of 67% (2018: 64%). Pre-exceptional profit before tax was £701.2 million (2018: £761.2 million).

We continued to deliver value for our shareholders and our Board recommended a total dividend for the year of 114 pence per share (2018: 114 pence), representing a payout ratio of 57% (2018: 53%). Our ordinary shares saw a significant increase in their price through 2019, rising more than 35%.

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

## A commitment to sustainability

I have long been of the view that it is vital for a company, including our own, to have a wide social purpose. Being focused exclusively on generating profits is simply not enough today.

At Schroders, our overall purpose is to improve futures by investing responsibly for our clients. We have a strong belief in the value that investment can create in our society and appreciate that we have an important responsibility in driving positive outcomes for the world around us. Accordingly, we are committed to operating our business on a net zero carbon basis from 2020.

### Increasingly, we are seeing that our clients are no longer interested solely in the returns generated by their investments, but also in the broader impact of those investments.

This is a philosophy that we also extend to the companies in which we invest. Social and environmental change is happening faster than ever and we believe those companies that can apply robust governance processes to adapt to these changes are the ones which will be successful in the long term.

Increasingly, we are seeing this viewpoint is reflected in our clients' investment decisions, where they are not only interested in the returns generated by their investments, but also in the broader impact of those investments.

We believe that a forward-looking, active investment approach is needed to fully understand the impact of these rapidly changing factors. It requires analysing how a company interacts with society and its environment as well as the profit it generates. And it means having a team of investment professionals who can apply experience and knowledge to specific situations and help manage risks appropriately.

As sustainability grows in importance, so does the need for rigorous, data-driven analysis. We have worked hard to develop proprietary tools that are evidence-driven, enable systematic analysis, and draw on the expertise of our financial and sustainability analysts.

But our focus on stringent analysis and active engagement is not limited to equity strategies. We continue to integrate Environmental, Social and Governance (ESG) processes across our product range and have committed to integration across 100% of our managed assets by the end of 2020. We aspire to be a leader in sustainable investing globally and were rated as the top Pan-European manager in this area by ShareAction.

We took a further significant step along this journey this year with the acquisition of a majority stake in BlueOrchard. Investing in more than 80 markets globally, BlueOrchard is a leading impact investor and a pioneer in the world of micro finance. It has a long-term focus and a commitment to sustainability, contributing to progress in 13 of the 17 UN Sustainable Development Goals.

This acquisition allows us to continue to expand our sustainability expertise and offer a new range of solutions to the increasing number of clients who are seeking investments that have a beneficial impact on society and the environment, as well as generating positive investment returns.

### Consistent investment performance

As an active asset manager, our key priority remains consistently delivering positive outcomes for our clients. Client investment performance over three years (our key performance indicator) remained strong to 31 December 2019, with 68% of Asset Management assets outperforming their stated comparator. Over five years, 71% of assets outperformed and over one year the figure was 68%. More information on how we measure investment performance is shown from page 196.

### Growing Asset Management

Our Asset Management business continues to generate the majority of our revenues and we see a number of growth opportunities. Increasingly, our clients are not looking for Schroders to simply be a component provider of investment products but, rather, they want us to play a wider role and to offer a complete solution to help them achieve their financial goals.

This could be de-risking a pension scheme, matching balance sheet liabilities for an insurance company or providing a regular, sustainable income. In 2019, we continued to grow our Solutions business, most notably through on-boarding the first tranches of the Scottish Widows mandate, part of the relationship with Lloyds Banking Group.

We have also grown our Asset Management business through further diversifying our global footprint. We see further opportunities in Asia, South America and Eastern Europe.

One of the most significant opportunities for active asset managers globally is expanding into China, as the regulatory regime becomes more favourable to international companies. We have two important associate interests to support this growth. In China, our partnership with Bank of Communications has had another successful year and AUM has reached £55 billion. In India, our partnership with Axis Bank has also seen strong growth and is now managing £14 billion of assets and has a top five market position.

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### One of the most significant opportunities for active asset managers globally is expanding into China, as the regulatory regime becomes more favourable to international companies.

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We currently have more than 50 employees across Shanghai and Beijing, which will increase through this year as we develop investment track records, expand our distribution reach and build infrastructure support. China is one of the most significant alpha opportunities for active managers globally and we have interest from clients across the world looking to increase their allocations to the Chinese market.

The management of equity portfolios for our clients has long been a strength of Schroders. 2019 saw the active market shrink significantly and our business was not immune to this. Although we expect further industry pressures in 2020, one of our key differentiators is our investment in a state-of-the-art Data Insights Unit. This will support us in delivering positive outcomes for our clients and demonstrate the value of active management.

### Building closer relationships with our end clients

Having closer, direct relationships with our end clients allows us to understand more fully their changing needs, resulting in better outcomes and improved client longevity. Our Wealth Management business clearly has a significant role to play in achieving this and we have seen strong progress through the year. Both Schroders Wealth and Benchmark Capital have attracted client inflows this year, with net new business of £1.2 billion and £0.9 billion respectively.

Schroders Personal Wealth was also formally launched this year, with around £14 billion AUM and 300 advisers. We are excited about the opportunity to grow this joint venture as we expand the business into an under-served and under-advised part of the UK savings and advice market.

We also expanded our international presence with the acquisition of the wealth management business of ThirdRock. The Singapore-based business brought £1.7 billion of AUM and helped develop the investment expertise we offer to private clients in Asia.

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### We also expanded our international presence with the acquisition of the wealth management business of ThirdRock.

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### Expanding capabilities in Private Assets & Alternatives

The number of companies publicly listed on Western exchanges continues to decrease, as increasing regulation and a lack of need for public growth capital has led to many companies going private. Investors have followed this trend and have continued to increase their allocations to private markets in search of less correlated, and potentially better, investment returns.

We have continued to see growing client demand within Private Assets & Alternatives this year, with net new business of £2.8 billion led by private equity and securitised credit strategies.

We have also seen inorganic growth as we continued to diversify our product offering. In addition to BlueOrchard, we further strengthened our Private Assets capabilities with the acquisition of Blue Asset Management, a Germany-based real estate business.

Our Private Assets & Alternatives strategies now account for 9% of AUM and 13% of net operating revenue. We continue to target growing the revenue contribution to 20% over the longer term.

## Investing in technology

The asset management industry has struggled with a technology deficit for a number of years, failing to keep pace with the rate of technological change seen across other industries and wider society.

We have been investing in leading-edge technology for a number of years. I continue to believe passionately that we can deliver value for our clients by thoughtful, targeted investments in innovative technology. We have focused on employing technology to produce better investment returns, to improve our clients' experience and to deliver operational efficiencies. We are proud to have created a scalable and efficient technology platform that acts as a genuine competitive advantage.

## We have continued to focus on employing leading-edge technology to produce better investment returns, to improve our clients' experience and to deliver operational efficiencies.

With the pressure on revenue margins facing the industry, it remains vital that we invest today in order to drive efficiencies to maintain profitability tomorrow.

## Success through talented people and an inclusive culture

The success that we have achieved this year could only have been delivered through the hard work and dedication of our talented employees across the world. We remain proud of our culture, built on collaboration and ensuring that we do the right thing for all of our stakeholders. In 2019, we conducted a Group-wide employee opinion survey and I was delighted to see that 91% of respondents are proud to be associated with Schroders and 88% believe strongly in Schroders' goals and objectives.

But we recognise that there is still work to be done. In common with financial services as a whole, our industry has failed to attract and retain diverse talent. Diversity and inclusion has again been an important focus for us throughout the year. We have worked to gather better data across the Group and are using this to help build an ever more inclusive culture. Continuing to improve on this will remain a key area of focus for us.

## Diversity and inclusion has been an important focus for us throughout the year. We have worked to gather better data across the Group and are using this to help build an ever more inclusive culture.

## Well-positioned for future growth

This year's results were delivered against a challenging backdrop of uncertain market conditions and negative investor sentiment, particularly at the start of the year. The well-publicised headwinds facing the industry have continued this year and we do not expect them to abate through 2020.

Despite this, our diversified business model has performed well and we have made good progress this year towards each of our three key strategic objectives. Schroders Personal Wealth has been launched to the wider market and we have begun to manage around £45 billion of assets across the Group through our relationship with Lloyds Banking Group.

We have continued to expand our capabilities in Private Assets through organic growth and selective acquisitions. We have materially improved our position in sustainable investing through a majority holding in BlueOrchard, a leader in micro finance and impact investing.


We will continue our strategy of investing for growth through the cycle. Our key priority remains achieving positive investment outcomes for our clients.

In the near term, Covid-19 is creating considerable uncertainty for economies and markets. We believe that our business resilience is sufficient to deal with this, but the impact on economies and markets will be highly correlated with how effective containment measures are.

## Peter Harrison

Group Chief Executive

4 March 2020

 More information on how we seek to attract, retain and develop our people, as well as our achievements against diversity and inclusion objectives, can be found from page 30.

## Key awards in 2019



Financial News  
Asset Manager  
of the Year



Investment Week  
Global Group  
of the Year



Investment Europe  
Group of the Year



Citywealth Magic Circle  
Private Client Asset Manager  
(Cazenove Capital)



MoneyAge  
Consumer Champion  
of the Year (MoneyLens)

# Designed to deliver positive outcomes

## What we offer

**We invest actively and responsibly to create better futures for our clients. In doing so, we are able to deliver positive outcomes for our other stakeholders, including our shareholders, our people and wider society.**

We offer innovative products and solutions across our five business areas and invest in a wide range of asset classes and diverse geographies.

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

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

## We differentiate ourselves from our competitors through

### Maintaining a strong financial position

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

### Building close, lasting relationships

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

### Diversifying our business

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

## How we do it

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



## Creating better futures for our clients

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

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

## What we deliver for our other stakeholders

Our client-led approach allows us to deliver for our other stakeholders, including our shareholders, our people, regulators, suppliers and society.

### The right capabilities to deliver for clients

#### Understand clients' goals

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

#### Develop innovative products

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

#### Actively manage investments

We take an active and responsible approach to investing in order to create better futures for our clients over the long term.

### The right proposition to deliver for shareholders

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

#### Dividend per share

**114p**



Read our investment proposition on page 22.

### The right culture to deliver for our people

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

#### Retention of key talent

**94%**



Read about our people on page 30.

### The right principles to deliver for wider society

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

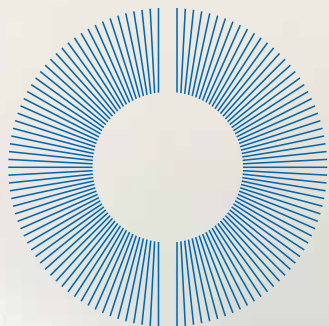
#### Company engagements on environmental, social and governance (ESG) issues

**1,750**



Read about our impact on society from page 36.





**Actively and responsibly  
investing to create better  
futures for our clients**





# Combining our commitment to active management and focus on sustainability, our strategic capabilities are designed to deliver positive outcomes for our clients

## Strategic capabilities



**Alpha Equity**  
Targeting higher active equity returns



**Credit**  
Intelligently crafted fixed income solutions



**Emerging Markets**  
Helping capture emerging market growth with confidence



**Alternatives**  
Diversifying beyond traditional asset classes



**Multi-asset**  
Helping build better outcomes



**Private Assets**  
Accessing specialist investment opportunities



**Solutions**  
Increasing investment certainty, intelligently



**Sustainability**  
Sustainably delivering long-term value in a fast-changing world

# 68%

**Three-year client investment performance**

# A growing trend towards sustainable investing

2019 began with some uncertainty following the challenges investors faced in 2018 when, for only the second time since 1900, both equities and bonds generated negative returns. Markets in 2019 provided something of a reprieve although the challenges that characterised the previous year did not fully disappear. There were gradual and periodic improvements in trade relations between the US and China and lower interest rates continued with rate cuts in the US.

But the trends of the year were not only driven by economic factors. 2019 also saw investors increasingly look to their investments to address global challenges relating to the environment and broader society. Against a backdrop of widespread climate protests and social unrest across the globe, investors increased their focus and asset allocation towards sustainable investing to ensure that their money was put to work in a responsible way.

## How economic factors affected markets

On the economic front, much of the focus was on the Federal Reserve which, having raised rates throughout 2018, reversed their view in 2019 and cut interest rates three times during the year. Whilst this was welcomed by investors, it was clear that the cuts reflected concerns about US growth prospects. Concerns that were heightened in the first quarter when short-term rates moved higher than long-term rates. This yield curve inversion has historically preceded a recession.

It was not just the US that suffered with signs of slowing growth. The Chinese economy experienced its worst growth in nearly three decades, prompting both the government and the central bank to take steps to support the economy. Some of the slowdown can be attributed to weaker trade because of the US-China trade war which began in 2018. To date, the US has applied tariffs of around \$500 billion on Chinese exports; China in turn has imposed \$185 billion worth of tariffs on the US.

Europe was also afflicted by growth concerns. Italy moved into recession at the beginning of the year while Germany, the largest economy in Europe, narrowly avoided doing so during the year. However by the third quarter, the economic outlook was sufficiently negative that the central bank opted to introduce a number of growth-supportive measures. Europe also remains at risk of becoming involved in its own trade war with the US. Duties have

been imposed upon European steel and aluminium exports, while the automobile industry is widely viewed as the next to be at risk.

The UK was also not immune to fears around growth, but did just manage to avoid recession. No interest rate cuts were forthcoming however, as the central bank appeared optimistic that global growth would stabilise and a Brexit deal would eventuate. The year was defined by an ever shifting Brexit timeline and narrative, with the country undergoing a change in prime minister, a general election and three extensions of the Brexit deadline.

## Risk appetite returns to financial markets

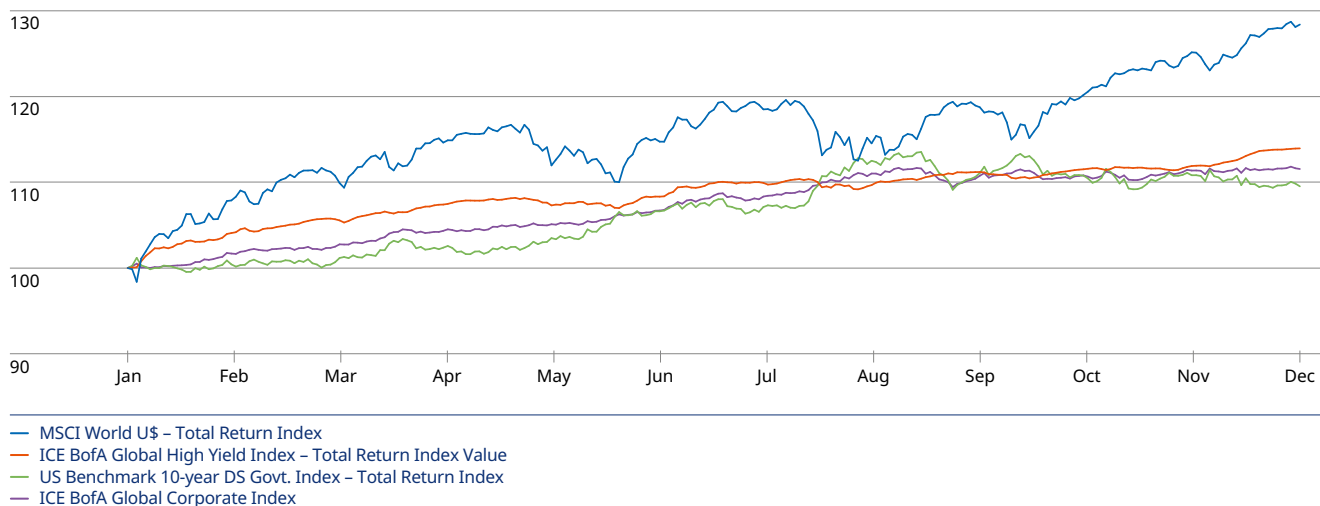
In contrast to the previous year, financial markets in 2019 generated widespread positive returns. Riskier assets outperformed, with equity markets generally outperforming fixed income assets. In turn, the riskier, lower quality and high yielding parts of the bond market outperformed better quality, but lower-yielding, government bonds.

Within equity markets, growth assets performed especially well given the combination of a relatively muted growth and low interest rate environment. The MSCI World Growth Index returned 34.1% in US dollar terms over the period. However, as the year progressed, more value-oriented shares saw something of a recovery with the MSCI World Value Index posting returns of 22.7%, driven to some extent by the attraction of extremely low valuations in these parts of the market.

In terms of regional performers, the US stock market once again stood out, with the S&P 500 Index returning 31.5%. Europe also performed well; the MSCI EMU Europe returned 26.5% in euro terms, helped by the economically-supportive policy measures implemented by the central bank during the year. UK indices delivered a more muted performance, with Brexit uncertainty limiting investors' risk appetite. The FTSE All Share posted returns of 19.2% in sterling terms.

Many Asian markets have been amongst the most heavily impacted by the US-China trade dispute, given their importance in global supply chains. Slowing Chinese growth was unhelpful too, as the wider Asian economy relies heavily on Chinese demand for its products.

## Asset class returns in 2019



Source: Schroders. Thomson Reuter Refinitiv data correct as at 31 December 2019. Total returns from MSCI World Index, BofA Global High Yield Index, BofA Global Corporate Index and US 10-year Treasury priced in dollars. Past performance is not a guide to future returns.



The MSCI China Index returned 23.3%, as the economy was impacted by challenged trade relations with the US. Emerging markets as a whole came in behind their developed peers with the MSCI Emerging Markets Index returning 18.9% in US dollar terms (18.5% in local currency). US dollar strength weighed on those markets with dollar-denominated debt as well as commodity exporters.

The US dollar acted as a safe haven currency for investors' nervousness and consequently strengthened through most of the year. It ended the year only slightly lower as optimism on the US-China trade war increased. The euro depreciated over the year as central bank policy measures lowered the attractiveness of the currency for international investors. Sterling was the stand out performer, ending up 4%, although it was also highly volatile reflecting changing sentiment on Brexit.

Amid growth fears and expectations of ongoing cuts to interest rates, bond market yields fell as prices rose over the year. Corporate bonds, especially those in high-yielding, riskier parts of the market, outperformed government bonds as investors responded to improved risk sentiment as the year progressed, searching for ways to generate income in a low interest rate environment. Emerging market bonds benefited from these factors too and performed well.

The less risky part of the bond market, government and investment grade corporate bonds, also put in a good performance. The US 10-year Treasury yield ended the year significantly lower at 1.91% down from 2.69% at the start of the period. On two occasions during the year, it moved lower than the yield on the three-month Treasury bill.

European government yields also saw significant moves lower. The German 10-year yield fell below zero early in the year, as did France's later on. A growing proportion of bond yields became negative yielding during the year. Italy's 10-year yield declined from 2.77% to 1.42% while the UK's 10-year gilt yield also fell from 1.27% to 0.82% as both countries experienced significant political uncertainty.

## Outlook

Looking forward to 2020, the world remains as unpredictable as it was at the end of 2019. The year had started off reasonably well given investors' relief about the signing of an initial trade deal between the US and China. This should have been beneficial for global trade and capital investment, boosting economic growth in the UK, Europe, Japan and the US.

However, the outbreak of Covid-19 creates a new and highly unpredictable challenge. Whilst we had expected global economic growth to improve, we now expect there to be a marked slowdown in activity, particularly in Asia. The eventual outcome is very dependent on how successful authorities are at containing the outbreak. The backdrop will be further complicated by the outcome of the US presidential election.

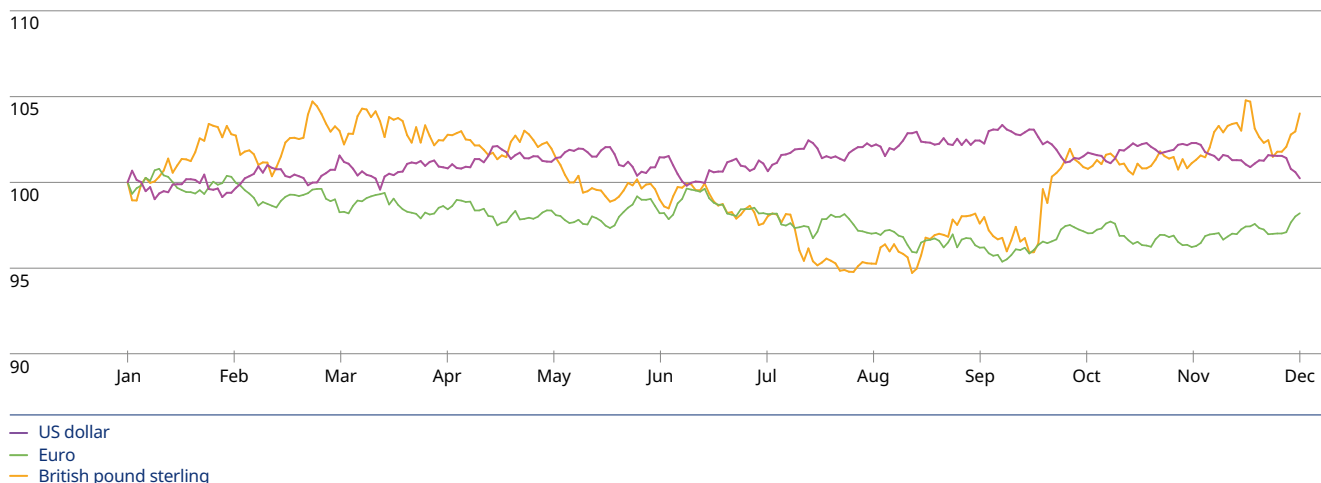
Risk assets, such as equities, will continue to benefit from ongoing low interest rates, which are also supportive of fixed income markets. However, there are heightened risks. Geopolitical uncertainty remains high and could trigger another flight to safety. The profit outlook is also challenging for corporates given rising costs, particularly in the US, and the contraction in trade created by Covid-19.

It remains challenging to predict with any certainty how events will unfold throughout 2020. We expect economic growth to weaken, but an easing of trade tensions and the actions of central banks to stimulate growth through low interest rates and easy monetary policy will provide an important offset to weakness in earnings.

In short, investors will have to continue to seek the themes that will deliver growth in a difficult environment. This may be enough to keep share prices moving upwards, but not at the same growth rates seen through 2019, not least because the bond markets remain relatively unattractive to investors. It may be another year in which asset allocation could prove challenging.

Our focus will remain on delivering positive investment outcomes for our clients and our wider stakeholders, whatever the economic or political backdrop.






## Currency returns in 2019



Source: Schroders. Thomson Reuters Refinitiv data correct as at 31 December 2019. Price performance for the US dollar is based on the dollar index (against a basket of currencies). Price performances for euro and sterling are against the US dollar. Past performance is not a guide to future returns.

# Strategic focus for sustainable long-term growth

We remain focused on our long-term strategy to invest for growth across the business. We have prioritised three key areas as strategic opportunities: growing Asset Management, expanding our capabilities in Private Assets and building closer relationships with our end clients. Achievement in these areas will be delivered by our five business priorities set out below.

Strategic opportunities	Business priorities	Build and maintain long-term client relationships	Offer a range of innovative products
<div> <b>Growing Asset Management</b></div>	<b>Why it's important</b> <p>By building close partnerships with our clients, we gain a deeper understanding of their needs, helping us develop products to meet their needs over time, leading to greater client longevity and new business opportunities.</p> <p>The service we provide as well as the insights we develop means we are well placed to build enduring relationships based on trust, as we focus on delivering positive outcomes.</p> <p>One of our strategic priorities is to focus on developing closer relationships with our end clients, particularly in Wealth Management. This allows us to reduce the impact of intermediation between us as manufacturers and our clients.</p>	<p>Providing innovative products and solutions to meet the complex needs of our clients is crucial to our future growth.</p> <p>Our clients are increasingly looking for solutions that can provide a specific outcome tailored to their personal needs, rather than just offering exposure to a market or asset class. Our range of strategic capabilities is designed to help our clients create better futures.</p> <p>We continually look to expand our product offering and move into new areas of investment expertise. In recent years, we have also focused particularly on developing our capabilities in Private Assets.</p>	
<div> <b>Building closer relationships with our end clients</b></div>	<b>Key performance indicators</b> <ul style="list-style-type: none"><li>– Net new business</li><li>– Net income</li></ul> <div> <a href="#">Read more within the key performance indicator section and Directors' remuneration report on pages 18-19 and pages 72-108 respectively.</a></div>	<ul style="list-style-type: none"><li>– Net new business</li><li>– Net income</li></ul>	
<div> <b>Expanding capabilities in Private Assets</b></div>	<b>Progress through 2019</b> <ul style="list-style-type: none"><li>– Generated record net inflows of £43.4 billion</li><li>– On-boarded £44.6 billion of assets through the relationship with Lloyds Banking Group</li><li>– Launched Schroders Personal Wealth to the wider market with £13.7 billion of AUM at 31 December 2019</li><li>– Acquisition of wealth management business ThirdRock in Singapore</li></ul>	<ul style="list-style-type: none"><li>– Continued focus on sustainability, including moving into impact investing through the acquisition of BlueOrchard</li><li>– Expansion of Private Assets capabilities with the acquisitions of Blue Asset Management and BlueOrchard</li><li>– Increased seed and co-investment to support new products</li><li>– Launched 41 new products, focusing on strategically important growth areas, including sustainability and Private Assets</li></ul>	
	<b>Growth opportunities</b> <ul style="list-style-type: none"><li>– Attract and retain business with clients, particularly in strategically important growth areas</li><li>– Increase client longevity through focus on products and client relationships</li><li>– Transfer remainder of Scottish Widows mandate</li><li>– Collaborate with Schroders Personal Wealth</li></ul>	<ul style="list-style-type: none"><li>– Continue to develop our strategic capabilities in line with changing client demand</li><li>– Maintain our focus on sustainability and commitment to developing new products</li><li>– Expanding Private Assets capabilities, diversifying our business away from public markets</li></ul>	
	<b>Key risks</b> <div><div>12356111718</div><div> <a href="#">Find out about these risks and how our strategy mitigates them from page 44.</a></div></div>	<div><div>123568910</div></div>	



Deliver consistent outcomes for clients	Invest in leading technology	Develop and retain talented people
<p>As an active investment manager, we are committed to delivering consistent outcomes for our clients over the long term.</p> <p>While many of our strategies seek to outperform a stated benchmark or peer group, client demand is increasing for outcome-oriented solutions, which provide a specific result such as income or risk management.</p> <p>Delivering outperformance or achieving a predefined outcome increases value for our clients and builds trust in our business.</p>	<p>Our business inherently involves processing and analysing data to achieve a desired outcome. It is critical to our ongoing success that we have leading technology to support this.</p> <p>Technology can be better used to innovate, improving productivity and efficiency. In doing so, we can continue to evolve and develop our business, adding value for our clients and other stakeholders.</p> <p>Our philosophy of investing in the future growth of our business includes an emphasis on embracing technology and comes with a focus on cost discipline through the cycle.</p>	<p>Developing and retaining a diverse and talented workforce is key to the delivery of our business model.</p> <p>We invest heavily in our people, offering opportunities to grow their knowledge, skills and capabilities. We also focus on providing them with a positive working environment that supports productivity, innovation and collaboration.</p> <p>In supporting our people to operate at their very best, we are able to deliver positive outcomes for our stakeholders.</p>
<ul style="list-style-type: none"> <li>– Client investment performance</li> <li>– Net new business</li> <li>– Net income</li> </ul>	<ul style="list-style-type: none"> <li>– Ratio of total costs to net income</li> <li>– Client investment performance</li> </ul>	<ul style="list-style-type: none"> <li>– Retention of key talent</li> </ul>
<ul style="list-style-type: none"> <li>– 68% of our assets outperformed their stated comparator over three years. More details on our performance reporting can be found on pages 18, 25 and 196</li> <li>– Developed our ability to deliver complex, risk-managed solutions to meet client needs</li> </ul>	<ul style="list-style-type: none"> <li>– Having implemented a new front office technology platform, we have worked to optimise processes globally</li> <li>– Continued investment in technology solutions across the business</li> </ul>	<ul style="list-style-type: none"> <li>– 94% retention rate of highly-rated employees</li> <li>– 91% of employees proud to be associated with Schrodgers</li> <li>– Female representation in senior management roles ended the year at 32%</li> <li>– 40% of employees have been with us for six years or more</li> </ul>
<ul style="list-style-type: none"> <li>– Continue to deliver high levels of investment performance for clients</li> <li>– Provide value for money and build trusted relationships with our clients</li> </ul>	<ul style="list-style-type: none"> <li>– Continue to invest in technology across the Group</li> <li>– Ongoing investment in robotics and automation</li> <li>– Maintain cost discipline through focus on ratio of total costs to net income through the cycle</li> </ul>	<ul style="list-style-type: none"> <li>– Maintain strong retention rate for highly-rated employees</li> <li>– An increased target to reach 35% for female representation in senior management roles by 2022</li> <li>– New target of 28% female representation in roles immediately below GMC</li> </ul>
<div>1 3 4 5 6 18</div>	<div>2 3 5 6 12 13 16 19</div>	<div>3 5 11 13 15 19</div>

# Tracking our strategic progress

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

## Client investment performance (%)

# 68%

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



Investment performance over a three-year period remained strong in 2019, with 68% of assets outperforming their stated comparator. We have been above our target for each of the past five years.

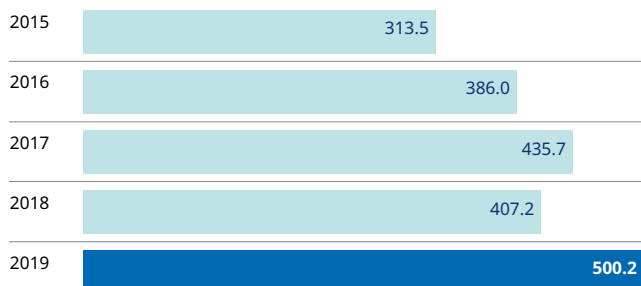
Five-year investment outperformance was 71% and the one-year figure was 68%.

 More details on our performance reporting can be found on pages 25 and 196.

## Assets under management (£bn)

# £500.2bn

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



AUM increased by 23% in 2019 to £500.2 billion.

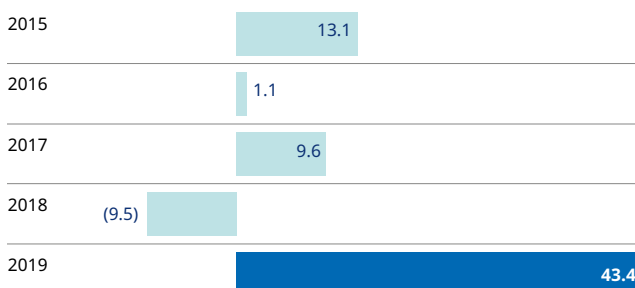
Rising markets increased AUM by £56.3 billion while currency movements, notably a strengthening of sterling, reduced assets by £12.9 billion.

We generated net new business of £43.4 billion and acquisitions added £6.2 billion of AUM.

## Net new business (£bn)

# £43.4bn

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



We generated record net new business in 2019 of £43.4 billion. The first tranches of the Scottish Widows mandate were transferred towards the end of the year, which contributed to net inflows into Solutions strategies of £34.5 billion. Private Assets & Alternatives generated £2.8 billion of net inflows.

Mutual Funds and Institutional saw net outflows as the traditional asset management industry continued to face challenges.

Wealth Management continued to perform strongly, with net inflows of £14.7 billion.

## Retention of key talent (%)

# 94%

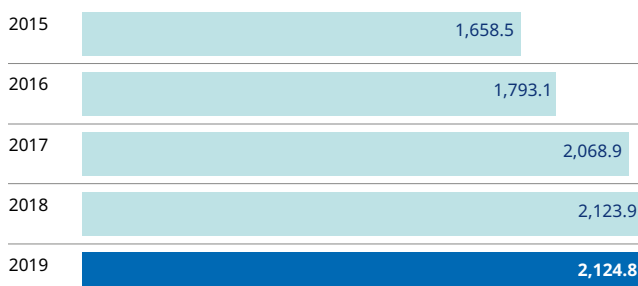
Developing and retaining talented people is key to our ongoing success. We actively monitor our retention of those employees who have been rated as either outstanding or exceed expectations in their annual performance review.



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

**Net income\* (£m)****£2,124.8m**

Net income comprises net operating revenue, which is primarily revenues generated from AUM less cost of sales, net gains on financial instruments, share of profit of associates and joint ventures, and other income. We aim to grow net income over time.



Net income increased £0.9 million from 2018 to £2,124.8 million.

Changes in business mix offset higher average AUM, resulting in a decrease in net operating revenue. This was offset by increased other income, driven by share of profits of associates and joint ventures and net gains on financial instruments.

**Ratio of total costs to net income\* (%)****67%**

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



In 2019, our ratio of total costs to net income was 67%, having previously been better than our target for each of the prior five years. This ratio increased as we continued to strategically invest in the future growth of the business.

**Basic earnings per share\* (p)****201.6p**

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



In 2019, basic earnings per share before exceptional items was 201.6 pence.

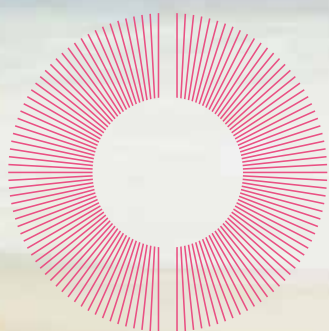
\* Before exceptional items

**Dividend per share (p)****114p**

Our policy is to provide shareholders with a progressive and sustainable dividend, maintaining a payout ratio of around 50%. For more information, see page 27.



The Board is recommending a final dividend of 79 pence per share, bringing the total dividend for the year to 114 pence per share. This represents a payout ratio of 57%.



## **A business strategy aligned with our shareholders' interests**

### **Delivering growth over the longer term allows us to generate sustainable shareholder returns**

#### **Lasting client relationships and a focus on positive outcomes**

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

#### **A strong financial position**

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

# 114p

**Total dividend  
per share**





# Delivering on our strategy

**We delivered profit before tax and exceptional items of £701.2 million (2018: £761.2 million) and profit after tax of £495.7 million (2018: £504.7 million) as we grew our AUM to a new high of £500.2 billion (2018: £407.2 billion). This was a resilient performance given the relative market weakness that existed at the start of 2019. We made good progress towards our strategic goals as we continued to position the Group for the future in the face of the ongoing industry headwinds.**

In Asset Management, we grew our Solutions business as we took on the first parts of the Scottish Widows mandate, one of the largest ever awarded. We also further expanded our Private Assets capabilities through both organic growth and acquisitions, including the acquisition of a majority stake in BlueOrchard, a leading impact investor and the acquisition of Blue Asset Management, a German real estate business. In Wealth Management, we launched an exciting new joint venture with Lloyds Banking Group plc (LBG), branded Schroders Personal Wealth (SPW). This further strengthens our offering by building our presence in the UK affluent market, complementing the high-net-worth and ultra-high-net-worth markets serviced by Cazenove Capital and Schroders Wealth.

These strategic developments helped us grow our AUM to a new high. The 23% increase in AUM is comprised of three components: net new business, investment returns and acquisitions. We generated £43.4 billion of net inflows and delivered £43.4 billion of positive investment returns for clients. Acquisitions added a further £6.2 billion and were again focused on expanding our capabilities in our strategic areas of growth, specifically Private Assets and Wealth Management. Despite significant growth over the year, the timing of the increases meant that our average AUM was only 2% higher than in 2018. As a result we are yet to see the full financial benefit of this increase in AUM.

Net income before exceptional items increased to £2,124.8 million in 2019 (2018: £2,123.9 million). We continued to see client demand focus on lower risk, lower margin products. Together with other changes in the mix of our business, this resulted in a two basis point reduction to our net operating revenue margins, which declined to 45 basis points (2018: 47 basis points). The impact was partly offset by higher performance fees and net carried interest, as we generated £73.1 million in 2019 (2018: £55.0 million). This meant that our net operating revenues decreased to £2,052.4 million (2018: £2,070.7 million).

The Group Chief Executive's review, on pages 6 to 9, sets out how our business is changing in line with our strategy, which is designed to address market-wide pressures through closer relationships with our end clients, and further diversifying our Asset Management business into Private Assets and Solutions. We are beginning to see the financial benefit of the progress we have made towards this. To better present the impact of these changes, we are providing more information on the four business areas within Asset Management, namely Private Assets & Alternatives, Solutions, Mutual Funds and Institutional. Further detail on these areas is set out on the opposite page.

Income from our Private Assets & Alternatives business has increased by 112% in the past five years to £300.2 million in 2019. Private Assets & Alternatives products are less exposed to the pricing pressures impacting the traditional asset management industry and

have greater longevity than most other products. We are also seeing a product shift, with an increasing benefit from strategic relationships such as our partnership with LBG and demand for outcome-orientated solutions products. The strength of our Solutions capability, supported by our new operating platform, underpin these developments. Although this type of business typically comes at a lower price point, it is an important part of our growth strategy. Significantly it also has greater longevity and offers significant long-term value to the Group.

Our Wealth Management business has also shown continued growth and contributed £309.6 million (2018: £289.8 million) of net income in 2019. Wealth Management is underpinned by the strength of the long-term client relationships we build. In October, we launched our new joint venture, SPW. This is part of a strategic partnership with LBG. LBG also acquired a 19.9% interest in our existing UK Wealth Management business. This resulted in us realising a £153.6 million gain that is not reflected in our income statement but increases our distributable profits.

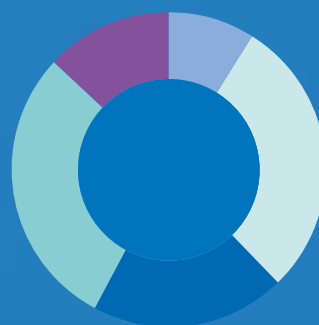
Other income included a significant contribution from China, where we have a 30% interest in a long-standing venture with Bank of Communications, which provides investment services to Chinese investors and saw assets under management increase to £54.6 billion (2018: £50.2 billion). These assets do not form part of the Group's AUM but are an important aspect of our existing presence in the region. They contribute to our brand recognition and mean that we are well positioned to take advantage of opportunities as the Chinese investment market further opens up to international investment. Our venture with Axis Bank in India, in which we have a 25% interest, also showed good growth, with assets under management increasing 46% from £9.3 billion to £13.6 billion. These developments contributed to a £10.6 million increase in our share of profits from associates and joint ventures.

Our proprietary investments, which comprise seed capital investments, co-investments and other financial instruments held as part of our investment capital portfolio, also performed well generating £23.5 million of returns in 2019 (2018: loss of £1.1 million). Given the increased importance of these other sources of income we have changed our Group key performance indicator from net operating revenue to net income in 2019.

Although we grew our net income, the increase was more than offset by an expected rise in our cost base.



## Assets under management by business area (£500.2bn)



Private Assets & Alternatives	9%
Solutions	29%
Mutual Funds	20%
Institutional	29%
Wealth Management	13%

The Group Chief Executive's review on pages 6 to 9 sets out our three part strategy to drive future growth in the business. We are reporting our assets under management, net new business and net operating revenue for the following five business areas, to better align with those business priorities.

**Private Assets & Alternatives** - Investment opportunities that are available through private markets, including real estate, private equity, infrastructure and other alternative products. Our clients have increased their allocation to private markets and alternative investments in search of longer-term, less correlated and potentially better investment returns.

**Solutions** - Increasingly, our clients look to us to play a wider role and to offer a complete solution to help them achieve their financial goals. This includes strategic partnerships, liability offset solutions and risk mitigation.

**Mutual Funds** - Mutual Funds provided through our intermediary network for retail clients that are either solely or dual-branded as 'Schroders'.

**Institutional** - We continue to provide institutions with index-relative products as a component of their overall investment strategy or as part of a sub-advised mandate.

**Wealth Management** - We provide a wide range of wealth management services, which focus on preserving and growing our clients' wealth.

As a people-focused business, attracting and retaining talent is central to the ongoing success of the company and maintaining appropriate remuneration structures is therefore a key priority. This year we saw the temporary accounting benefit that arose as a result of the changes we made to deferred compensation arrangements for material risk takers (MRTs) in 2017 fully unwind. We increased our total compensation ratio to 44% (2018: 43%), which takes us back to the level we had before the adjustment for MRTs. This remains below our target range of 45% to 49%. Further details on our remuneration policy are set out in the remuneration report on pages 72 to 108.

Delivering long-term sustainable returns for shareholders is dependent on maintaining an efficient and scalable operating model. It is for this reason that we have been investing in technology and reviewing our operating effectiveness for some time. The investments we have previously made, including our new investment platform, are already having a positive impact on the Group. They provide a scalable platform and enable us to efficiently manage a wider, more sophisticated range of products, which can provide a competitive advantage in helping us win new business. These investments mean that there is some increase to our non-compensation costs in 2019. Together with the changes to our total compensation ratio, it means a total cost to net income ratio of 67% (2018: 64%). The result is profit before tax and exceptional items of £701.2 million (2018: £761.2 million).

In 2019, we have undertaken a further targeted cost reduction programme. This will enable us to realise additional operating efficiencies, made possible by the investments we have made, and to reward our people appropriately. We have recognised a one-off charge of £29.0 million to achieve this, which has been presented as an exceptional item. Other exceptional items mainly relate to acquisition-related costs, principally amortisation of intangible assets. The total cost of exceptional items in 2019 was £76.6 million (2018: £111.3 million). This results in pre-tax profit of £624.6 million (2018: £649.9 million). Profit after tax was £495.7 million (2018: £504.7 million).

We are well prepared for Brexit and do not currently expect it to have a significant impact on our business or operating model having already taken steps to review our corporate structure across Europe. Notwithstanding this, we continue to monitor closely the negotiations between the UK and EU regarding the future relationship for trade and services arrangements.

Overall, we believe we are well placed to deal with the ongoing industry challenges, while remaining focused on our long-term strategic priorities. Reflecting our dividend policy and the reduction in pre-exceptional profits this year, the Board is recommending a final dividend of 79 pence per share (2018: 79 pence). After the interim dividend of 35 pence per share this brings the total dividend for the year to 114 pence (2018: 114 pence).

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

### Assets under management (AUM)

Our AUM increased by £93.0 billion, or 23%, to close 2019 at a record high of £500.2 billion (2018: £407.2 billion). Understanding the movement in AUM is critical to understanding our results. There are three components to this:

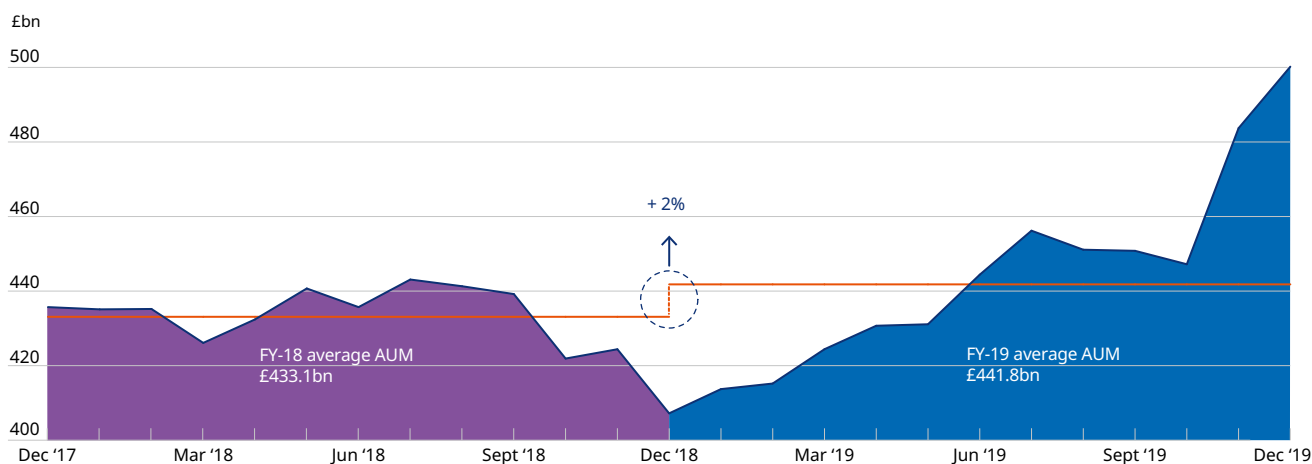
- net new business from clients;
- assets acquired or disposed of through corporate activity; and
- investment returns, including currency movements.

In 2019, we generated £43.4 billion of net inflows from clients (2018: outflows of £9.5 billion), including £44.6 billion from our strategic partnership with LBG. Acquisitions added £6.2 billion of assets across Private Assets & Alternatives and Wealth Management. We also generated £43.4 billion of investment returns for clients, after foreign exchange movements. The Market review, on pages 14 and 15, provides further details on the key external factors impacting the Group. Despite the strong growth in AUM during the year, the timing of movements meant that our average AUM only increased by 2%. The chart below illustrates how our AUM moved during the year and the impact this had on our average AUM.

AUM in the Asset Management segment increased by £70.0 billion, or 19%, to £433.5 billion at 31 December 2019 (2018: £363.5 billion). We generated £28.7 billion of net new business from clients in 2019. Acquisitions added a further £3.9 billion of assets (£2.9 billion from the acquisition of a majority stake in BlueOrchard and £1.0 billion from Blue Asset Management).

Our Solutions business generated £34.5 billion of net inflows, including £32.0 billion from the Scottish Widows mandate. Solutions strategies are designed to provide clients with an outcome over the life of the product and typically have a higher longevity than more traditional products. We also saw continued demand from clients for other higher longevity products, particularly within Private Assets & Alternatives with £2.8 billion of net inflows in this business. Private Assets & Alternatives products are typically made available through close ended vehicles and can have a life cycle of over 10 years. The net inflows from these businesses were partly offset by net outflows of £7.1 billion from our Institutional business and £1.5 billion from Mutual Funds.

Wealth Management continues to be a strategic area of growth and generated £14.7 billion of net new business in 2019. This included £12.6 billion of assets from clients of Schroders Personal Wealth with a further £2.3 billion added through acquisitions. Our Schroders Wealth business generated £1.2 billion of net new business with a further £0.9 billion of inflows through Benchmark Capital.





Ebn	AUM						Total
	Private Assets & Alternatives	Solutions	Mutual Funds	Institutional	Asset Management	Wealth Management	
<b>1 January 2019</b>	<b>38.0</b>	<b>95.9</b>	<b>95.1</b>	<b>134.5</b>	<b>363.5</b>	<b>43.7</b>	<b>407.2</b>
Gross inflows	9.6	46.6	39.4	16.7	112.3	20.3	132.6
Gross outflows	(6.8)	(12.1)	(40.9)	(23.8)	(83.6)	(5.6)	(89.2)
<b>Net flows</b>	<b>2.8</b>	<b>34.5</b>	<b>(1.5)</b>	<b>(7.1)</b>	<b>28.7</b>	<b>14.7</b>	<b>43.4</b>
Acquisitions	3.9	–	–	–	3.9	2.3	6.2
Investment returns*	(0.5)	12.4	9.6	16.7	38.2	5.2	43.4
Transfers	–	–	(0.8)	–	(0.8)	0.8	–
<b>31 December 2019</b>	<b>44.2</b>	<b>142.8</b>	<b>102.4</b>	<b>144.1</b>	<b>433.5</b>	<b>66.7</b>	<b>500.2</b>
Assets managed by associates							69.2

\* Includes currency movements which decreased AUM by around £12.9 billion.

AUM is the key driver of our net operating revenues and the basis for our net operating revenue margins. We are now using this as our key performance indicator, with revenues from assets under administration included in net income, another key performance indicator.

### Client investment performance

Our ability to generate positive investment outcomes for clients is central to our success as an active investment manager. Investment performance over a three-year period (our key performance indicator) remained above our target of 60%, with 68% of assets outperforming their stated comparator (2018: 74%). Five-year investment outperformance was 71% (2018: 76%) and the one-year figure was 68% (2018: 43%).

Client investment performance is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. Calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking. Further information about the calculation of investment performance is provided in the glossary on pages 196 to 198.

### The Group's financial performance

Net income before exceptional items increased to £2,124.8 million in 2019 (2018: £2,123.9 million). Net operating revenues decreased by 1% to £2,052.4 million (2018: £2,070.7 million). Although our average AUM increased by 2%, we began 2019 with a £35 million headwind as a result of the 2018 net outflows. We also had net outflows in the first six months of 2019 and are therefore yet to see the full financial benefit of the £43.4 billion of net inflows we generated over the year as a whole. Our net operating revenue margin decreased by two basis points as a result of mix changes in 2019 to 45 basis points (2018: 47 basis points). The resulting reduction in management fees was partly offset by higher performance fees and net carried interest, which were up 33% to £73.1 million (2018: £55.0 million).

Other sources of income grew by £19.2 million and are an increasingly significant part of our business. Net gains on financial instruments and other income before exceptional items increased by £8.6 million to £41.9 million (2018: gain of £33.3 million). This included good returns from our seed capital portfolio where we invest to support new product strategies, and from co-investments we make alongside our clients. There was also a £10.6 million increase in our share of profits from associates and joint ventures. These contributed £30.5 million of profits in 2019 (2018: £19.9 million). They include long-standing partnerships with Bank of Communications in China and with Axis Bank in India and in 2019, we also began to benefit from our new joint venture SPW, which we entered into at the beginning of October.

Our operating expenses excluding exceptional items increased by 4% to £1,423.6 million (2018: £1,362.7 million). We are a people-focused business and around 65% of our cost base is related to compensation. Our ability to attract and retain the best people is central to the future growth of the business and rewarding our people appropriately underpins our retention of talent, a key performance indicator.

We manage our compensation costs as a proportion of the Group's net income, with the total compensation ratio increasing by one percentage point to 44% in 2019. This reflects a more normalised compensation ratio following the accounting benefit taken over the last two years for MRTs. In 2017, we made changes to our remuneration approach for employees deemed to be MRTs under the UCITS or AIFM Directives. We increased bonus deferral levels for these employees to create further alignment with clients and shareholders and to meet regulatory requirements. This resulted in an increase in the proportion of variable remuneration deferred, and created an accounting benefit that improved our total compensation ratio by one percentage point in 2017. This temporary accounting benefit unwound over 2018 and 2019.

Clients are increasingly demanding investment solutions that help them to achieve their long-term financial goals, whatever these may be. At the same time, pricing pressures continue to impact the asset management industry. We recognised these changing dynamics a number of years ago and have made significant investments in our systems and processes. These investments have provided us with a strong foundation to grow and are already helping to attract new business. They enable us to manage an increasingly broad range of products and to offer solutions designed to meet the varied needs of our clients. Given the investments we have already made, we are now focused on targeted opportunities which, where appropriate, leverage technology to deliver new capabilities.

Acquisitions increased our costs by around £3.2 million in 2019. This increase includes the acquisitions made this year, most notably BlueOrchard and Blue Asset Management, combined with the full-year impact from acquisitions made in 2018. As a result, non-compensation costs excluding exceptional items increased to £496.3 million (2018: £459.4 million).

Pre-exceptional profit before tax was £701.2 million (2018: £761.2 million), a decrease of 8% on the previous year. The effective tax rate before exceptional items decreased from 21.5% to 20.0%, mainly due to the increase of deferred tax assets in respect of share awards following the increase in our share price. This resulted in a basic earnings per share before exceptional items of 201.6 pence (2018: 215.8 pence).

Exceptional items in 2019 mainly relate to acquisitions completed by the Group, including amortisation of intangible assets as well as the targeted cost reduction programme. Further information on exceptional items is provided in note 1(b) to the accounts. After exceptional items, profit before tax was £624.6 million (2018: £649.9 million).

We had a post-exceptional tax rate of 20.6%, which meant profit after tax of £495.7 million was 2% down (2018: 504.7 million), and basic earnings per share was down 2% to 178.9 pence (2018: 183.1 pence).

### **Asset Management**

Asset Management net income reduced 1% to £1,781.2 million in 2019 (2018: £1,801.2 million). Net operating revenue decreased 1% to £1,763.1 million (2018: £1,788.8 million). Management fees decreased by £84.0 million, or 4%, mainly due to changes in asset mix.

Excluding performance fees and net carried interest, the net operating revenue margin on average AUM reduced by two basis points to 43 basis points (2018: 45 basis points). This was in line with our expectations, with the impact of external fee pressures being partly offset by the positive effect of growth in our Private Assets & Alternatives business. The decrease was partly offset by higher performance fees and net carried interest which increased by 32% to £72.2 million (2018: £54.6 million).

Our Asset Management segment is comprised of four business areas: Private Assets & Alternatives; Solutions; Mutual Funds; and Institutional. These are further explained on page 23. Expanding our capabilities in Private Assets is a strategic growth opportunity and we have developed the business significantly over the last five years. In 2019, net operating revenue from our Private Assets & Alternatives business increased 10% to £300.2 million (2018: £273.7 million), demonstrating the success of the investments we have made to expand our capabilities.

Along with the development of our Private Assets & Alternatives business, we see significant growth opportunities from our Solutions business. In 2019, net operating revenue from Solutions increased 3% to £226.1 million (2018: £219.3 million). These two businesses together with Wealth Management, our other growth priority, now represent more than 50% of our AUM. Notwithstanding this, our Mutual Funds and Institutional businesses continue to generate significant revenues for the Group. Net operating revenue from our Mutual Funds business was £734.8 million in 2019 (2018: £784.1 million) and Institutional contributed £502.0 million (2018: £511.7 million).

The decrease in overall Asset Management net operating revenue was partly offset by increased income from our share of profits from associates and joint ventures, which increased 50% to £23.5 million (2018: £15.7 million).

Operating expenses before exceptional items increased to £1,174.3 million (2018: £1,130.4 million). Non-compensation costs increased as we grew our AUM, completed a number of strategic acquisitions, and as a result of the investments in technology and infrastructure we have made to support the future growth of the business.

In 2019, we further developed our capabilities to support the on-boarding of assets from the Scottish Widows mandate and other client assets from our strategic partnership with LBG. We also outsourced the transfer agency function for our European fund range.

Profit before tax and exceptional items decreased by 10% to £606.9 million (2018: £670.8 million). There were exceptional items of £41.4 million. These mainly relate to acquisitions, including amortisation of acquired intangible assets and £22.3 million relating to the targeted cost reduction programme. After exceptional items, profit before tax decreased to £565.5 million (2018: £588.2 million).

### **Wealth Management**

Wealth Management net income increased by 7% to £309.6 million (2018: £289.8 million), driven by management fees, which increased by £25.9 million to £253.2 million (2018: £227.3 million). Following

the commencement of the Group's interest in SPW on 3 October 2019, the Wealth Management segment now includes our proportional share of the income and expenses of SPW on an individual account line basis. The Consolidated income statement includes our share of the post-tax profits of SPW within Share of profit of associates and joint ventures. A reconciliation between the two different presentations is shown in the segmental note on page 118. SPW contributed £14.9 million to revenue in the period from 3 October 2019 to 31 December 2019. The remaining increase in management fees was driven by an 8% rise in average AUM (excluding SPW).

Performance fees amounted to £0.9 million (2018: £0.4 million). Other fees, principally transaction related, were slightly down at £37.6 million (2018: £38.5 million) and net banking interest decreased to £24.0 million (2018: £26.8 million) as our net interest margin reduced slightly. Net operating revenue margins were down two basis points from the prior year at 59 basis points (2018: 61 basis points), mainly driven by the lower levels of transactional income and changes in product mix.

Other income amounted to £7.5 million (2018: £7.9 million), which primarily comprises administrative services provided by the Benchmark Capital business.

Operating expenses before exceptional items were £222.1 million, up 13% (2018: £196.4 million). The increase was partly driven by the inclusion of our proportionate share of the operating expenses of SPW of £10.9 million for the first time. The remaining increase was mainly within Benchmark Capital, driven by investments made in preparation for the on-boarding of the SPW assets to the Benchmark Capital platform.

Profit before tax and exceptional items decreased 6% to £87.5 million (2018: £93.4 million). Exceptional items within Wealth Management mainly comprise costs incurred in relation to acquisitions, including amortisation of acquired intangible assets, together with expenses as part of the cost reduction programme. After exceptional items, profit before tax reduced to £52.9 million (2018: £68.0 million).

### **Group segment**

The Group segment comprises central management costs, returns on investment capital, including income from financial instruments and our associate interests in RWC Partners Limited (RWC). During 2019, we reached provisional agreement to sell our 41% interest in RWC, however this disposal will only be accounted for in 2020 when the deal completes. The 2019 results therefore include our share of profits after tax of RWC for the year ended 31 December 2019.

Net income for the Group segment was £44.9 million (2018: £32.9 million). Costs in the Group segment increased to £38.1 million (2018: £35.9 million). This resulted in a profit before tax and exceptional items of £6.8 million (2018: loss of £3.0 million).

### **Financial strength and liquidity**

The Group's net assets increased by £226.3 million during 2019 to £3,847.5 million (2018: £3,621.2 million).

As part of the strategic partnership with LBG, we sold 19.9% of our UK Wealth Management business. This resulted in a £153.6 million gain on disposal, representing the difference between the consideration received for the 19.9% shareholding (£204.7 million) and the carrying value of the proportion of the business disposed of. The gain was recognised in the Group's Consolidated statement of changes in equity and is distributable to shareholders.

We generated total comprehensive income of £426.4 million (2018: £519.5 million) and distributed £312.3 million to shareholders in the form of the 2018 final and 2019 interim dividends (2018: £311.7 million).



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

	Statement of financial position £bn	Not recorded in the Statement of financial position £bn	Total £bn
Life Company	12.4	–	12.4
Other Asset Management	–	421.1	421.1
<b>Total Asset Management</b>	<b>12.4</b>	<b>421.1</b>	<b>433.5</b>
<b>Wealth Management</b>	<b>3.0</b>	<b>63.7</b>	<b>66.7</b>
<b>Total AUM</b>	<b>15.4</b>	<b>484.8</b>	<b>500.2</b>
Investment capital	0.6		
Seed and co-investment capital	0.6		
Other assets	4.7		
<b>Total Group assets excluding clients' investments</b>	<b>5.9</b>		
<b>Total Group assets</b>	<b>21.3</b>		

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

Wealth Management principally provides investment management, wealth planning and financial advice, platform services and banking services. Those subsidiaries that provide banking services are legally responsible for the banking assets and liabilities. They are therefore included in the Consolidated statement of financial position. The assets are managed to earn a net interest margin with consideration of the liquidity demands that may arise from clients. These assets are not made available for wider corporate purposes.

Reflecting these structures, the Group's total assets increased to £21.3 billion at 31 December 2019 (2018: £19.6 billion). Excluding those assets that form part of AUM, the Group's total assets increased to £5.9 billion (2018: £5.1 billion), principally as a result of increases in other assets.

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

Investment capital is mainly comprised of investment-grade corporate bonds and investments in our own pooled funds. During 2019, investment capital reduced by £74 million to £556 million (2018: £630 million), primarily as we used capital to fund acquisitions, and seed new investment strategies and co-invest alongside our clients. Our seed and co-investment capital increased from £535 million at 31 December 2018 to £578 million at the end of 2019.

Other assets increased by £687 million to £4,665 million (2018: £3,978 million). This represents assets that support our ongoing operating activities. The increase was mainly driven by the adoption of the new leasing standard (IFRS 16) which resulted in the recognition of a £395 million right-of-use asset, representing the future benefit of the leased asset. In addition, our interest in SPW increased the associates and joint ventures balance by £196 million.

In 2019, we continued to invest in the future growth of the business with a number of acquisitions, the most significant of which were the purchase of a majority stake in BlueOrchard and the acquisition of Blue Asset Management. Acquisitions increased goodwill and intangible assets by £154 million, before amortisation and foreign exchange movements. We continued to invest in technology to support our strategic priorities and take on of the Scottish Widows mandate resulting in additions to software intangible assets of £100 million before amortisation and foreign exchange movements.

The Group's liquidity and regulatory capital position remains strong and further information on this is set out in note 20 of the financial statements.

## Dividends

It is our policy to provide shareholders with a progressive and sustainable dividend, maintaining a payout ratio of around 50%. The payout ratio is determined as the total dividend per share in respect of the year, divided by the Group's pre-exceptional basic earnings per share. In line with this policy, and as pre-exceptional profit after tax decreased this year, the Board is recommending a final dividend of 79 pence per share (2018: 79 pence per share). It means a total dividend for the year of 114 pence per share (2018: 114 pence per share) and represents a payout ratio of 57% (2018: 53%).

In setting the dividend, the Board has regard to overall Group strategy, capital requirements, liquidity and profitability. This approach enables the Group to maintain sufficient surplus capital to take advantage of future investment opportunities while providing financial security to withstand possible risk scenarios and periods of economic downturn.

The distributable profits of Schroders plc are £2.9 billion (2018: £2.8 billion). The Group's ability to pay dividends is, however, restricted by the need to hold regulatory capital and to maintain sufficient operating capital to support its ongoing business activities. Operating capital requirements include co-investments with clients and seed capital investments in our funds to support new investment strategies.

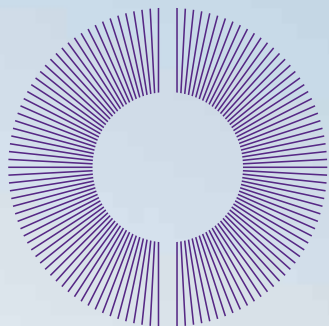
Circumstances that could adversely impact the Group's ability to pay dividends in line with the policy include a combination of significantly increased costs and a prolonged deterioration in markets or performance leading to reduced revenues and a consequential increase in the ratio of total costs to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

We are clear on our strategy and are beginning to see the benefit of the investments we have been making. The growth in AUM demonstrates the resilience of our business model and we expect to see further benefit from this growth in 2020.

## Richard Keers

Chief Financial Officer

4 March 2020



# Our people are central to our unique culture and working environment

**Enabling everyone to work at their best contributes to our overall success as a business and we continue to focus on developing careers, ensuring inclusivity and mental wellbeing**

## Our values

### **We strive for excellence**

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

### **We promote innovation & teamwork**

We challenge how things are done, anticipate future opportunities and understand that to deliver this value it will take collaboration and a healthy respect for individual skills.

### **We have passion & integrity**

We are realistic about what we can achieve, but are ambitious too, approaching everything we do with energy and drive. This sits alongside an openness and responsibility to deliver on our promises.

# 91%

**of employees are proud to be associated with Schroders**





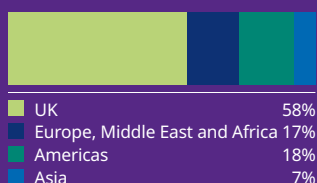
# Our culture is one of our greatest strengths

We believe that people remain at the heart of investing and our long-term focus is on retaining, developing and attracting the right talent for our current and future business needs. To achieve this we concentrate on our sense of purpose, our working environment and quality of work, and strive to provide a positive, inclusive and collaborative culture for this key stakeholder group to thrive within.

We measure our effectiveness by actively seeking feedback via multiple channels to ensure we evolve our employee proposition alongside our business strategy. Our intention is to provide the best possible environment, where regardless of role, location or background all employees can realise their potential.

## 2019 at a glance\*

### Our people around the world



### Schrodgers is widely seen as a good place to work

**87%**  
would recommend Schrodgers as a good place to work

### We focus on retaining our most talented employees

**94%**  
retention of high-performing employees

## An engaged and motivated workforce

### Proud to work at Schrodgers

**91%**  
are proud to be associated with Schrodgers

### Inclusive environment

**83%**  
feel they are treated with fairness and respect

### Believing in our purpose

**88%**  
believe strongly in Schrodgers' goals and objectives

### Value wellbeing

**81%**  
believe Schrodgers' management is interested in the wellbeing of employees

### Strong diversity values

**82%**  
feel that Schrodgers recognises and values diversity among its employees

### Opportunities for personal development

**78%**  
feel they have the opportunity for personal growth and development at Schrodgers

\* Statistics quoted are based on responses from our 2019 Employee Opinion Survey.

## Employer of choice

We seek to be an employer of choice by providing a collaborative and innovative culture where everyone can thrive. We focus on delivering and enhancing our experiences across the employee lifecycle, creating an environment where people can do their best work and producing the sustainable outcomes our clients and shareholders expect from us.

## Our purpose

As a global investment manager, we recognise that we have an important part to play in shaping the future for all our stakeholders. Our focus on doing the right thing for our clients, our people and wider society lies at the centre of our culture and so we are committed to delivering positive outcomes for all.

We see our purpose as creating a better future by investing responsibly for our clients.

We have built a diverse team of individually-minded people who work together to bring more insightful perspectives for our clients. In a fast moving, data-driven world we have the ingenuity and intuition to capture insights and identify the trends that will shape the prosperity of individuals, businesses and future generations.

## Connecting with our people

Our Group Chief Executive leads the effort to ensure our people are aware of the factors affecting the Group's performance. In 2019, this started with a global session to reflect on our achievements, the Group's overall performance and to provide clarity on strategic areas of focus.

At the release of our Gender Pay Gap report in March, and at the announcement of senior management changes in September, our Group Chief Executive again takes the lead. These sessions have employee Q&A, with subsequent videos, intranet articles and podcasts being released to provide content in accessible ways. We provide on-going communications with our quarterly in-house magazine and use our recently refreshed interactive intranet to allow employees to share views and get actively involved.

In 2019, we created a global employee forum in addition to our UK employee forum. This new body enables the voices of our people to be heard directly by our Board of Directors. 12 appointed representatives from across Asia, Europe and the Americas meet twice a year with the designated non-executive Director, Ian King. The remit of this forum is intended to cover Group strategy; financial performance; diversity and inclusion; employee engagement; and other such items.

Our employee opinion survey runs annually with Directors briefed on the results and our Group Chief Executive engaging with our GMC members on accountable action plans designed to actively respond to employees' sentiments. We then continue to measure engagement in those respective functions and take further actions as necessary.

## Opportunities to develop and grow

Our ongoing success is driven by our people and providing them with the resources to reach their full potential is critical to our employee engagement. We aim to do this through different experiences such as rotations and job shadowing as well as offering the tools and resources they need to grow. We see this as a key driver in executing our business strategy and continue to take steps to future-proof our workforce for an ever changing world.

## Offering digital learning

Our global learning management system, Spark, launched in late 2018. Its success is reflected in continued engagement with the platform; on average around a quarter of our workforce is accessing content every month, reflecting our learning agility and keen desire to develop and grow. Employees are able to create their own playlists of content around topics to share with others, with over 180 created since launch.

## Building skills for the future

We appreciate that our employees want guidance on their future careers. Therefore we run global learning and career weeks, giving employees opportunities to build skills for the future and better understand how to manage and drive their careers. Over 100 sessions saw around 1,500 employees participate in a mixture of virtual, in-person and digital sessions to broaden their development.

## Supporting our managers

We believe our managers are critical in helping us deliver the best working environment for our people, driving employee engagement and championing change as we continue to grow and adapt as a business. A set of manager expectations launched this year gives them a framework to understand how to succeed. Our formal learning programmes have been redesigned around this framework, to offer a consistent experience across our offices. We have also given managers the ability to seek feedback on these expectations as part of encouraging ongoing dialogue at any time throughout the year.



## Employee development

Developing talent at every level of the organisation continues to be part of our people strategy. Our early careers programmes, with investment in apprentices, trainees (as part of the Investment 2020 scheme) and graduates, help build our pipeline of new talent.

Of the graduates who have joined since 2010, 64% are still at Schroders, reflecting the unique proposition that our programme offers. From a new talent scheme that brings together potential future leaders from all over the world to participation in initiatives that build external perspective at mid and senior levels of the organisation, we are focused on developing our leaders with the right skills to face the coming years.

## Mobility and succession planning

We know that gaining different experiences is a key part of career development at Schroders and look to fill our open roles with internal candidates where possible. In 2019, 25% of our hires were filled in this way. This offers people the chance to take more responsibility, learn new areas of the business and also to put new skills into practice. A key outcome of mobility is also internal succession. Growing and developing our people has enabled us to make several key management changes internally. These highly skilled individuals have a deep understanding of the organisation and are able to make an immediate impact.

## Creating the right environment for all

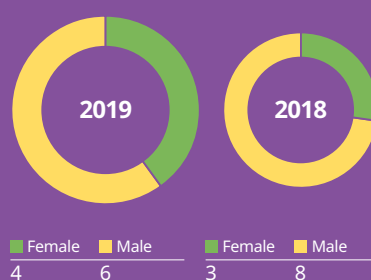
We are committed to fostering an inclusive culture and the continuous encouragement of greater diversity in our global workforce is championed by our Group Chief Executive. Talented people who can understand and embrace different perspectives are crucial to our continued business success. This means attracting, retaining and developing a diverse team regardless of age, gender, ethnicity, sexual orientation, disability, religious beliefs or other characteristics.



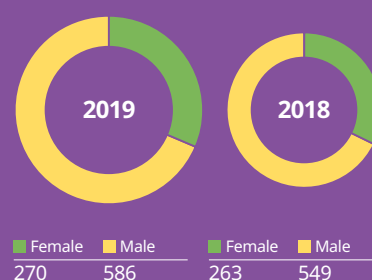
## Gender diversity statistics (2018 vs. 2019)

Whilst it is clear there are industry-wide challenges with achieving true equality, we are committed to creating an inclusive culture where everyone can thrive.

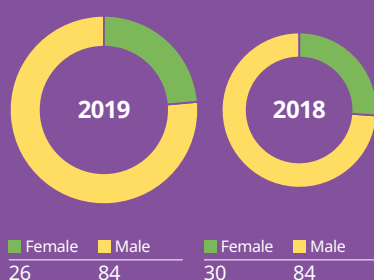
### Directors



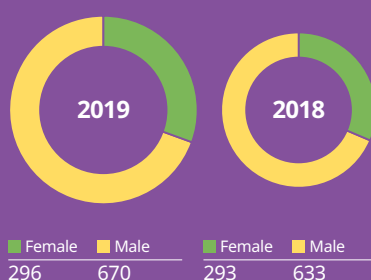
### Senior management<sup>1</sup>



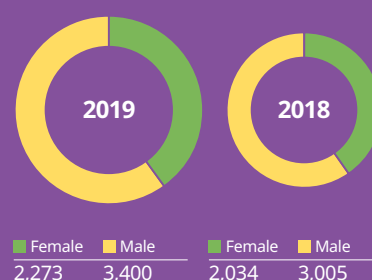
### Subsidiary directors<sup>2</sup>



### Total senior management



### All employees



1. Senior management includes members of the GMC, the direct reports of members of the GMC and the direct reports one level below that, in each case excluding administrative and other ancillary roles. In the charts above, the data excludes the executive Directors of Schroders plc and includes some individuals who are also subsidiary directors.
2. Subsidiary directors comprise directors of subsidiaries who are not classified above as senior management or Directors of Schroders plc.
3. Total senior management in the charts above is the sum of the senior management and subsidiary directors categories.
4. All employees include permanent and temporary staff.

We recognise that each individual needs to be able to benefit from an environment that allows them to manage the balance in their lives and we are rolling out flexible working policies globally so employees feel supported and included.

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

In line with our longer-term plans, we achieved our initial target of 30% females within senior management positions during the first quarter of 2017 and at the end of December 2019 reached 32%. This is just short of our 33% target.

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

We are proud to have been a Living Wage accredited employer in the UK since 2015. All of our UK-based employees and contractors are paid above the real Living Wage.

## Employee-led inclusion

We have 13 active Employee Resource Groups across our business, including gender equality, sexual orientation, disability, mental health, religion and ethnicity groups. They are a key feature of our identity as an inclusive place to work. Additionally diversity and inclusion (D&I) is owned in the business both via functional D&I groups and in-country employee-led Diversity & Inclusion Councils outside of the UK (including Singapore, Hong Kong, Japan, Australia and North America). Recognising the changing generational dynamics of the workplace, our newest Employee Resource Group, Millennials@Work, was set up in the Asia Pacific region this year.

Members not only run events to celebrate their heritage but also work together to raise awareness around challenges that under-represented groups might face. As part of our Career Week 2019, our Employee Resource Groups collaborated to bring together a panel of external and internal leaders (Levelling the Playing Field for Ethnic Minorities) to dispel some of the myths and discuss challenges around career progression.

## Inclusion embedded in the employee lifecycle

We believe that each step of our employee experience should be considered with a view to creating an inclusive organisation. This includes being thoughtful about our policies – for example offering both maternity and paternity coaching and shared parental leave – as well as implementing changes to continue to allow for a diverse workforce and reduce bias.

## We are proud to have been part of the inaugural Bloomberg 2019 Equality Index in January 2019, which recognises us as a leader in advancing gender equality globally.

In 2019, we have:

- Reduced bias by changing our early careers recruitment using a newly designed digital assessment and removing use of traditional CVs until assessment centre stage
- Designed a new talent development experience whereby employees are able to self nominate and go through an objective assessment to participate in a Future of Work workshop, as well as gain developmental coaching to support their career progression.

### A fit and healthy work environment

We have a multi-generational workforce and it is vital that our people are provided with support and opportunities to optimise their health and wellbeing. By focusing on education and prevention, we try to reduce the risk of future health problems developing and encourage healthier life choices.

We support our people across five key areas: mind, workplace, body, financial and work-life balance. In 2019 we held events across our global network, including:

- A month long 'Move More and Count It!' physical activity challenge, to encourage individuals to increase their general activity levels, improve awareness around the impact of sedentary behaviour and drive team spirit
- For Mental Health Awareness week, we launched a new e-learning module 'Wellbeing in the Workplace', combining drama with real life experiences and expert advice. The learning modules 'Wellbeing in the Workplace' and 'Active Listening' were developed by Samaritans using the same principles by which they train their volunteers. On Global Mental Health day in October, we rolled out a Global Employee Assistance Programme to help ensure employees are provided with access to free, independent and confidential support, including short-term counselling.

In the UK, over 40 colleagues have qualified as mental health first aiders and our aim is to expand this initiative to other locations. Since 2017, we have supported the Lord Mayor's Appeal Green Ribbon Campaign and encourage our people to wear a green

ribbon as a sign of their support to help end the stigma and show colleagues that they care about their mental health and wellbeing. Also, we are proud to have signed up to the Mental Health At Work Commitment.

### Case study: Our award-winning workplace

In November, we won the Best Workplace Design at the Business Culture awards, for our head office in London. The judges were impressed with the way the building was designed to encourage collaboration, as well as positioning employee wellbeing at the heart of the project. Factors such as daylight and lighting, air quality, noise and biophilia were carefully considered. High quality amenities include a Health, Fitness and Wellbeing Centre with onsite gym, spin studio, fitness studio and multifunctional clinical treatment including private dentist, GP, nurse, physiotherapists, and cognitive behavioural therapists. The building contains a number of open air terraces with gardens created to support natural wildlife and to encourage healthier ways of commuting we have facilities for those who want to cycle or run. Our goal was to ensure the new workplace is one that our people are proud of and they enjoy coming to work.

### Focus on conduct

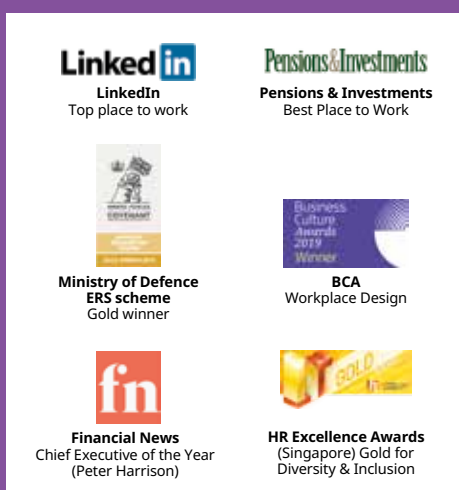
We understand the importance of doing the right thing for our clients, employees and shareholders, and to embed this each employee has a conduct goal as part of their annual objectives.

We have a whistleblowing policy, under which employees can report any concerns. A widely publicised 24-hour external hotline is available to allow them to do so anonymously. Personal securities trading by employees is subject to clearly defined internal policies. Employees are not permitted to solicit or accept any gifts, entertainment or inducements that are likely to conflict with their duties. We have policies in place and train employees on identifying potential tax evasion, anti-money laundering, awareness of terrorist financing, anti-bribery, market integrity and data protection. Due diligence is undertaken before entering any material new client relationship and this is enhanced for higher-risk countries, entities or individuals.

### Aligning reward to our values and our clients

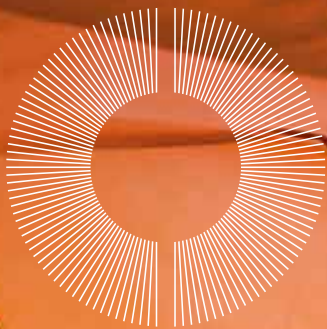
Competitive benefits and remuneration that reflects the performance of each employee as well as the business is important in retaining our people. Our approach is explained in the remuneration report on pages 72 to 108.

### Key awards in 2019



### Key memberships and partnerships





**Our decisions and actions  
can make a real difference  
to wider society**

**We are committed to improving futures for those  
around us and support programmes and initiatives  
that have lasting impact**

**Ensuring diversity of thought through diversity of action**

Key achievements in 2019 include

Carried out more than 1,750 ESG engagements

Volunteered 1,707 work hours

Committed to net zero carbon emissions from 2020

**100%**

**ESG integration  
across our managed  
assets by end 2020**







# Committed to creating positive impacts

**The impact we have on society and the environment is at the centre of our approach to corporate responsibility. We focus on driving progress and improving futures across each of our identified stakeholder groups with sustainability remaining a priority.**

Social and environmental issues have become fundamental factors to consider for any organisation or business. Stakeholder expectations demand that they are considered and increasingly legislation and regulation seek to address some of the more pressing issues, such as climate change, human rights and corruption. Sustainability as a concept is now mainstream for many organisations, with notable leadership from the United Nations with its 17 Sustainable Development Goals (SDGs).

Towards the end of 2019, we signed up to the UN Global Compact, the world's largest corporate sustainability initiative, which calls on companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. As a signatory we have committed to do business responsibly by aligning our strategies and operations with its ten principles and take action to advance broader societal goals, such as the UN SDGs, with an emphasis on collaboration and innovation.

In defining positive outcomes, we use the SDGs as our benchmark, recognising their role in setting truly global objectives. While an issue like climate change may already demand specific focus for us, as a global investment business we should aim to progress most, if not all, of them while we go about our work.

Our immediate stakeholders include our clients, shareholders, people, suppliers, service providers, investment funds, investee companies and the communities in which we operate. We also have clear responsibilities to general society and the environment.

A positive impact towards improving futures is what we want to achieve for each of these groups. This applies to both engaging on sustainability with investee companies as well as reducing our carbon footprint, and supporting our people volunteering their time to break down barriers to education and employment.

## Our approach to society

### Human rights

Respect for human rights is fundamental to contributing properly to society and is central to the responsibility we have towards our stakeholders. Our business model is designed to comply with applicable human rights legislation in the countries in which we operate and, as a signatory to the UN Global Compact, we fully support the United Nations' Guiding Principles on Business and Human Rights. This applies equally to our own people and any individuals with whom we have contact through our operations.

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

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

We launched an employee photography competition focused on the 17 UN Sustainable Development Goals (four winners are shown below)





## Our suppliers

We rely on external service providers to provide goods and services globally as essential contributors to our own infrastructure. This enables us to benefit from their expertise or specialist skills, with access to lower costs and efficient service delivery.

We engage proactively with our external service providers and have an established framework that governs our approach to selection, on-boarding, management, oversight and reporting across our supply chain. Our Supplier Code of Conduct sets out the high standards and behaviours we expect from them, covering human rights, ethical sourcing, bribery and corruption, living wages, diversity and inclusion, health and safety and the environment.

We perform ongoing critical assessments of our supply chain and our Audit and Risk Committee reviews our material supplier relationships and framework annually to confirm that our approach remains appropriate, consistent and adds value to supplement our own infrastructure.

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

## Our relationships with regulators

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

We regularly engage with regulators and policymakers to ensure that our business understands, and contributes to, the evolving regulatory environment. Senior management hold regular meetings with regulators to foster healthy working relationships and we frequently contribute to consultations, both directly and through relevant trade associations. We also report regularly to the Board and the Audit and Risk Committee on engagement with regulators, and how changes in regulatory regimes may impact our business processes and procedures. In 2019, these reports included the implementation of SMCR in the UK, Conduct Risk and MiFID II.

## Our approach to tax

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

This means that we comply with our tax filing, reporting and payment obligations globally. We also seek to maintain good relationships with the tax authorities in the jurisdictions in which we operate. This may take the form of discussing key developments in our business and the potential impact of those developments on the amount of tax we pay. From time to time, our views on the appropriate tax treatment in any given situation may differ from those of the tax authorities. Where this occurs, we work constructively and proactively to achieve an early resolution. We comply with the UK's Code of Practice on Taxation for Banks and are treated as 'low risk' by HM Revenue & Customs.

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

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

## Taxes borne

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

The total tax borne by the Group in 2019 was £245.7 million (2018: £253.1 million).

## Taxes collected

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

The total tax collected in 2019 was £244.4 million (2018: £223.0 million).

The combined taxes borne by us as a business and the amounts collected by us on behalf of tax authorities in 2019 were £490.1 million (2018: £476.1 million).

Further information on taxes borne and collected can be found at [schroders.com/taxtransparency](https://www.schroders.com/taxtransparency).

## Our clients

Sustainability continues to grow in importance for our clients globally, with more interest in how they can make their investment portfolios more sustainable and resilient for an ever-changing world. In our 2019 Global Investor Study, 57% of end investors said they will always consider sustainability factors when selecting an investment product. However, they still prioritise financial objectives over investing sustainably; avoiding losing money and meeting their return expectations were ranked the most important factors. Changes to regulations, better financial advice and easy to understand information were ranked among the top factors that would help encourage investors to invest more in sustainable products.

## Stewardship

Through our Sustainability Accreditation, we seek to provide clarity to our clients on the different roles that ESG plays in the investment processes of our funds. We have committed to integrating environmental, social and governance factors across all of our managed assets by the end of 2020.

Companies play a critical role in society and need to maintain a strong relationship with shareholders, employees, suppliers, communities, customers and regulators and support the environment to be sustainable in the long run. It is essential to question and challenge companies about issues that could materially affect their value. We engage with companies to understand how they are identifying and managing relevant ESG issues and encourage them to move towards best practice. We actively exercise our voting rights and are not afraid to vote against management if we feel it is in the best interests of clients to do so.

In 2019, we carried out more than 1,750 ESG engagements across 57 countries. We have addressed a wide range of issues ranging from climate change to human capital management and shareholder rights. We voted at more than 5,850 company meetings around the world and instructed a vote against at least one resolution at 47% of meetings.

For the fifth consecutive year, we received a UNPRI A+ ranking for our approach to responsible investment. We also received an A+ for our active ownership.

For more information on our approach to sustainability and stewardship, please see [schroders.com/sustainability](https://www.schroders.com/sustainability).

## Our communities

We have a responsibility to create lasting positive impact in the societies in which we live and work. This year we have continued to build and establish new strategic community partnerships through Schroders Giving across the globe, moving from responsive funding to international multi-year partnerships with organisations that meet our aims of improving futures. This has allowed greater investment into social capital and maximises the impact we can have on the beneficiaries. Through our partnerships we are actively supporting the United Nations 17 Sustainable Development Goals with a particular focus on: reduced inequalities; quality education; decent work and economic growth; and good health and wellbeing.

### Schroders Giving

Our new charity partnerships underpin our ambition of improving futures and through them we tackle the issues we feel strongly about, including improving social mobility, breaking down barriers to education and employment, and supporting mental health, with the help of our talented workforce. It is important to us that through these partnerships, we're able to provide our employees with meaningful volunteering opportunities, where they are able to use their skills to contribute to making a lasting positive social impact.

We have continued to focus on improving social mobility, which plays an integral role in our continued success as a business. In the UK, we have continued our partnership with the Social Mobility Foundation (SMF), which supports high-achieving students from low-income backgrounds. Over our four-year partnership, we have successfully secured SMF candidates onto the Investment 2020 programme, into our formal recruitment process and placed almost 20 students through SMF's One+1 work placement scheme. We continue to run 'Futures Days', aiming to break down barriers to the asset management industry and develop participating students' skills. This year, we have also partnered with the Amos Bursary, Snowdon Trust and Sutton Trust to fund university places for students from less fortunate backgrounds, with disabilities, and young black, Asian and minority ethnic men.

We have established partnerships across the globe to break down the barriers to education and employment. In the UK, through our partnership with Teach First, we have funded the training of 11 teachers who are placed into schools in low-income areas, which has in turn impacted over 1,500 students. To continue our focus on education, we have partnered with Enactus UK and IntoUniversity, ensuring access to education through the funding of a new IntoUniversity centre and empowering university teams across the UK to tackle social challenges with innovative solutions through the Enactus network. We have established a number of partnerships across our regional offices including: Jonk Entrepreneurs, a Luxembourg association that aims to inspire and prepare young people to enter the world of work; The Music Children Foundation in Hong Kong, which provides free music education to children from low-income families; and with Read Alliance in the US, through which we have helped almost 1,000 elementary pupils with their reading skills in 2019.

We continue to look for opportunities to raise awareness on mental health. We have a responsibility not just to support our employees but our communities as well. That's why we have established a new multi-year partnership with Samaritans, a charity that aims to provide support to anyone in emotional distress or at risk of suicide in the UK. Through that partnership, we will help grow and expand Samaritans' support service by means of employee volunteering and activities. In 2020, Samaritans is launching its 'City Hub', a new flexible volunteering delivery centre, which the charity hopes will help meet the growing number of calls as well as provide new volunteering opportunities. Our partnership complements our internal focus on employee wellbeing. We recently signed the Mental Health at Work Commitment, which provides a framework of standards to create a working environment for employees to thrive.

### Case study: Improving reading skills in low-income communities

This year we continued our decade-long partnership with Read Alliance, a US charity that offers one-to-one reading to underprivileged children by employing teens in those same communities to serve as tutors. Over our ten years of partnership, we have raised more than \$500,000 for the charity through employee fundraising events and company donations. We have also hosted teen leaders for workshops covering topics such as public speaking, presentation skills and social media, and their impacts on careers. In 2019, it has worked with over 900 teen leaders and almost 1,000 early elementary students across New York, including the Bronx and Queens.

### Case study: Breaking down the barriers to our industry



The East London Business Alliance (ELBA) aims to build connections between business and local communities, bringing time, skills and resources of the private sector to address social mobility, regeneration, poverty and inequality in East London and beyond. In our 13 years of partnership, we have had almost 380 employees volunteer their time as mentors and have mentored over 600 students. Through mentoring, our people have helped to improve prospects for young people and inspire them to succeed, contributing to the programme's objectives of introducing young people to the world of work and raising aspirations.

### Charitable giving

Supporting our people in their charitable efforts matters to us and is part of our strategy to be an employer of choice. We have a long history of positively contributing to local communities through monetary donations and employee time. In 2019, we donated £2.1 million to charitable causes around the world (2018: £2.1 million), £569,000 of which was outside the UK (2018: £447,000). Alongside our new company-led partnerships, we continue to run employee-led charitable giving schemes, supporting our employees in their charitable efforts through a number of generous matched giving schemes including external fundraising and payroll giving. In 2019, we focused on rolling out matching schemes across our regional offices and implementing a streamlined approach to our employee charitable giving. In the UK, 29% of our employees give through Give As You Earn (2018: 29%), which saw £855,350 (2018: £670,000) donated by employees before the contributions were matched by Schroders.

In addition to financial donations, we have provided gifts in kind, organised frequent charitable collections and supported our employees giving back to the community through volunteering. We offer a time matching scheme for volunteering outside of office hours and up to 15 hours of volunteer leave per year. In a recent UK volunteer survey, 97% of respondents said they thought it was important for a business to offer volunteer opportunities, while 80% agreed that volunteering improved their mental health and wellbeing. This year, we have aligned our community impact with our learning and development strategy and have established two new partnerships with Governors for Schools and Reach Volunteering to develop, build and use our people's skills for good causes in the charity sector. We recognise volunteering as a fundamental development tool to progress our people's professional and personal skills.

### Charitable giving in figures

	2019
 Number of volunteer hours taken by employees during working hours	1,707
 Donations made by employees through employee charity matching schemes (including payroll giving, fundraising and time matching) – before Schroders matching	£994,438

# Empowering our people to improve futures across the globe

In 2019, we rolled out our improving futures strategy across the globe with the objective of engaging our people to make a positive impact. We decided to launch a competition, asking our global colleagues to tell us about the charities that they thought were driving progress and improving futures in their communities.

Our employees had the chance to win £50,000, £30,000 or £15,000 (or the local equivalent) on behalf of their charities, if they could show how they were making a real difference around the world.

Our judging panel comprised Peter Harrison, Group Chief Executive; Leonie Schroder, non-executive Director; and Sir Damon Buffini, independent non-executive Director.

To engage our colleagues further, we established a 'People's Choice' award. Once our three finalists were chosen, they had to work with their charities to create a short video, highlighting the impact they were having in their communities. Our colleagues then voted on their favourite video and the one with the most votes received an additional donation.

Our judges chose these three winners and we are proud to support these causes, which align to our corporate focus on climate change, social impact and social mobility.



## 1<sup>st</sup> Cool Earth, global

Cool Earth works alongside rainforest communities to halt deforestation and climate change. This charity shares and promotes the most effective conservation methods around the world and invests in those methods with the potential for best outcomes for people and the rainforest.



## 2<sup>nd</sup> SEWA, India

SEWA has been making women in India self-sufficient since the 1970s. It is made up of a network of self-employed women on low incomes, whose financial wellbeing is therefore unprotected. The charity transforms women's lives by empowering them with leadership skills, entrepreneurship and skills training to gain full-time employment.



## 3<sup>rd</sup> Beyond Social Services, Singapore

Beyond Social Services is dedicated to helping children and youths from less privileged backgrounds break away from the poverty cycle in Singapore. The charity provides guidance, care and resources that enable families and communities to keep their young people in school and out of trouble.



## Climate change

We believe that climate change will be a defining driver of the global economy, society and financial markets in the future, and that investors will be unable to avoid the impacts of this.

We have been a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) since June 2017. TCFD seeks to provide investors with increased awareness of climate-related risks and opportunities, and we support this objective. We are also signatories of the 2018 Global Investor Statement on Climate Change and as a founding member of the Carbon Disclosure Project (CDP) we continue to use the CDP climate change questionnaire as our means of comprehensive disclosure. In this report we provide a summary of our disclosures, using the TCFD headings as a guide.

## Governance

The Group Chief Executive retains overall responsibility for Group strategy in relation to ESG matters, including climate change. The Group has an established risk management framework to identify risk and opportunities and the governance mechanism for reviewing the potential impact of these is through the Audit and Risk Committee. The Committee receives reports on risks impacting the business, one of which is climate change, and reports to the Board on these at least annually.

The management of climate-related risks and opportunities relating to our clients' investments is the responsibility of the Global Head of Investment.

For our own operations, Climate change risk is managed as part of our physical infrastructure and supply chain management functions which report to the Chief Financial Officer.

## Strategy

The Group Chief Executive and Board consider ESG risks and opportunities, including climate change, to be integral to the Group's overall strategy.

Key aspects of climate-related risk that currently influence Group strategy are the risks and opportunities associated with the assets we manage on behalf of our clients. We consider these risks as a major long-term challenge for economies and markets, and for our purpose to deliver positive outcomes for our clients. We consider that a multi-faceted approach is needed to successfully mitigate the impacts.

We have been actively monitoring client views on this topic with the aim to meet rapidly evolving expectations, with regular surveys of both retail and institutional clients since 2017. In 2019, we saw greater industry and investor awareness of climate change. In our Global Investor Study, protecting the planet was ranked the top priority for stewardship, with almost three-quarters of investors (71%) believing man-made climate change is a real phenomenon that is impacting the world. Of this number, 40% believed the impact would be 'significant', with 63% of investors believing it will have some impact on investments. Our Institutional Investor Study saw climate change rank above corporate strategy globally as the top engagement issue for the first time. We are seeking to address these evolving client needs in a number of ways.

We are launching and evolving sustainable funds to meet client needs. We have operated a Global Climate Change fund since 2007. This is a diversified, global thematic fund that invests in companies that recognise the threats of climate change and embrace the challenges early, or that form part of the solution to the problems linked to climate change. During 2019, we launched a Global Energy Transition fund which only invests in companies involved in the sustainable energy value chain as the world transitions to low-carbon power. Both of these funds sit alongside our fossil fuel free and low-carbon solutions. We recognise the need to evolve our products; our Global Sustainable Growth fund became explicitly fossil fuel free in 2019, joining a number of existing products of this nature.

We are increasing our interaction with clients on this complex issue. As well as discussing the issue in client events and webinars, our quarterly and annual investment reports include updates on the topic and in 2019 we wrote a specific thought leadership piece on divestment.

We are increasing our engagement activity on climate change, both bilaterally and with collective engagement such as joining the Powering Past Coal Alliance.

We engage with policymakers to ensure that we stay ahead of fast moving expectations and to share our experience of building effective investment solutions in this area.

Our product strategy is reviewed annually by our Product Strategy Committee, made up of senior stakeholders from across Investment, Product and Distribution and attended by our Group Chief Executive, so that we are evolving our proposition in line with changing expectations.

## Risk management

Climate change is recognised within our overall risk management framework as a key risk facing the Group. It arises from both physical risks from extreme weather events linked to increasing global temperatures and transition risks as the global economy shifts to a low-carbon environment.

It is our central thesis that significant and disruptive changes are needed to limit rises to the 2°C commitment global leaders made in Paris. Failure to make those changes in time will lead to escalating physical damage, social instability and economic losses. The impact of climate change is therefore unavoidable, even if the timing and types of impact remain uncertain. Every part of the global economy, every industry and every company will be affected to some extent, not just the most obviously challenged. The complexity of this change means that it is a source of considerable risk for the markets in which we invest.

Approximately 80% of emissions are embodied in sectors that represent 20% of market capitalisation so these will feel the brunt of the transition impacts but the effects in others will also be important.

Decarbonising the global economy will create huge disruption, but there will also be significant investment opportunities. Investors can either focus on the sectors that will face the largest direct pressures, or they can look at the broader impacts and more nuanced indirect effects which may be less acute in many cases but are also typically less well understood by the market. We expect most of these to unfold over the medium and longer term. We have focused our activities on building tools that enable this to happen, even if we are less than certain when risks like transition will begin to occur.

For our investment activities, our fund managers are responsible for identifying and managing risks to their portfolios, including those relating to climate change. The Sustainable Investment team has an important role to play in providing research and the tools to enable this to happen. The team reports into the Global Head of Investment, who is a member of the GMC and works with the different investment teams to ensure that these tools are used as effectively as possible.

All of our analysis shows us that overall the risks are significant for markets. Climate change has therefore been a major strand of our engagement activity. In 2019, we had more than 230 climate change-related engagements with more than 200 companies, including collective engagement through the Climate Action 100, focusing on the world's largest emitters. Equally, we are aware that there are few sectors that are not impacted. We have also hosted events to share the findings of our research with the companies in which we invest. We hope that this will equip boards to make better capital allocation decisions and build resilience. In 2019, we focused on physical risk. We also complement our engagement activity with voting.



## Metrics and targets

Regarding the management of investments, the integration of ESG factors into our investment process is a key initiative for the business. We have targeted 100% integration of all our managed assets by the end of 2020, separately verified by our Sustainable Investment team and by 31 December 2019 we had achieved this for the majority of our AUM.

Regarding our own corporate activities, as a signatory of the RE100 initiative we are committed to using only renewable electricity globally by 2025 and we have an interim target of 75% by 31 December 2020. By 31 December 2019 we had achieved a total of 68% of electricity from renewable sources.

In 2019, we introduced an objective of achieving year-on-year reductions in gross GHG emissions measured in tonnes of CO<sub>2</sub>e per employee. In 2019, we achieved an 11% reduction in CO<sub>2</sub>e emissions as they fell to 3.05 tonnes per employee (2018: 3.44 tonnes per employee).

As part of our ambition to meet the EP100 Net Zero Carbon Buildings pathway in the UK, we plan to own and occupy only assets that are net zero carbon in operation by 2030. As an interim target we have pledged to reduce our emissions by 10% per square foot by 2025, focusing on our London estate which currently accounts for approximately 45% of our global emissions.

We continue to participate in the CDP Climate Change Questionnaire. We use conversion factors provided by DEFRA to calculate our CO<sub>2</sub>e emissions for all consumption apart from overseas electricity, for which we use the International Energy Agency's conversion factors as recommended by DEFRA. Our data has been verified and further information is disclosed in our CDP submission. Our total carbon output in 2019 has reduced by 2%, despite the increase in the size and scale of our business as we increased our AUM to £500.2 billion and grew our average headcount by 10%. For the last three years, we have used the internationally accepted GHG Protocol Corporate Standards for reporting.

## Our workplace and the environment

As part of our commitment to responsible consumption and production, we aim to minimise the impact that our own business has on the environment. We constantly review opportunities to minimise the environmental impact of our operations and to deliver continuous improvements in our environmental performance.

In 2018, we consolidated our London office portfolio and relocated to our new London Headquarters at 1 London Wall Place. In 2019 we were pleased to achieve an Excellent BREEAM rating for the fit-out of the building. The BREEAM rating is the world's leading sustainability assessment for buildings and the Excellent rating reflects our building being in the top 10% of UK new non-domestic buildings. The building has a number of sustainability initiatives including

### Recycling at 1 London Wall Place

**75%**

recycling rate achieved

**1,591**

trees saved

**20,880**

fuel logs produced from coffee grounds

grey-water toilets which re-use basin and sink water, and reducing carbon emissions by recycling heat from catering fridges into the hot water system. With our New York office having achieved Leadership in Energy and Environment Design (LEED) Gold certification, and our Singapore office certified BCA Green Mark Gold for sustainable design and construction, we now have over 60% of our employees working from buildings demonstrating excellence in sustainability.

We have continued to review our waste management processes across the Group and recognise our responsibility to reduce our waste and run efficient operations. Starting with our London offices, we have run employee awareness campaigns around our recycling programmes to help increase our recycling rates. We took part in the 'Plastic-free July' campaign, calling on colleagues to reduce their reliance on single-use plastics. In an internal survey, 60% of respondents said they were more confident on how to dispose of their waste and 100% said they would change their habits around single-use plastics after they attended a talk hosted by the founder of Plastic Oceans UK. We have seen high engagement across the Group about plastics and in our US office colleagues took the initiative to run their own plastics campaign to help continue to raise awareness about the damaging effects of plastic pollution. We seek to achieve recycling rates of 75% in our UK operations and plan to extend our targets to our worldwide operations.

### Commitment to net zero carbon emissions

In support of the long-term goal of the Paris Agreement to keep global average temperature to below 2°C above pre-industrial levels, we recognise our responsibility to play our part in reducing global emissions and that a balance between emissions and removals should be achieved by 2050.

In addition to our programme to reduce our gross emissions, from 1 January 2020 we have been investing in sufficient carbon offsetting activities to ensure that our own operations will be net zero for carbon emissions. We commit to reporting on our offsetting investments, alongside our gross emissions, on an annual basis.

### Total CO<sub>2</sub>e emissions (tonnes)

**16,352**

2018	621	5,092	11,054	<b>16,767</b>
2019	709	4,965	10,678	<b>16,352</b>

■ 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)

**3.05**

2018	3.44
2019	3.05

1. The 2018 figures have been adjusted to align with 2019 emissions calculations.

## Our Sustainable Investment team

Schroders has a long-serving and well-resourced Sustainable Investment team. It is comprised of ESG specialists who are responsible for analysis, engagement, voting and facilitating ESG integration into investment processes across teams and asset classes. We also employ dedicated product and client resources. For more details, visit [schroders.com/sustainableinvestment](https://schroders.com/sustainableinvestment).

The below table gives information on some of the sustainable investment tools that we have built, the impacts that we have identified and the steps we have taken to mitigate them. As well as quantifying the overall impacts on markets, we also find that the performance gap between companies that we identify as winners and losers via these tools is significant:

Tool	Features	High level findings	Uses	More information
<b>Climate Progress Dashboard</b>	Updated quarterly, it tracks indicators across policy, technology, finance and incumbent industry against International Energy Agency (IEA) scenarios to assess what degree of temperature rises we can expect given current trajectories.	Temperatures are set to rise by 3.8°C by the end of the century if no progress is made from where we are today.	The dashboard indicates areas of particular weaknesses and industries that might be subject to more disruptive policy action if the status quo remains. For example, carbon capture and storage still has significant progress to make before it offers a viable solution.	<a href="https://schroders.com/climate-dashboard">schroders.com/climate-dashboard</a>
<b>Carbon Value at Risk</b>	This measures the extent to which company profits and investor returns could be at risk from higher carbon prices as we transition to a lower carbon economy. Our model examines carbon emissions from companies' direct and indirect operations, and elasticity of demand for their products.	Almost half of listed global companies would face a rise or fall of more than 20% in earnings if carbon prices rose to \$100 a tonne.	By estimating supply chain emissions and identifying which companies will suffer the largest potential earnings drop we have been able to do more in-depth analysis than is possible through conventional carbon footprinting. The tool is also useful for identifying winners and losers within sectors.	<a href="https://schroders.com/climate-dashboard/var">schroders.com/climate-dashboard/var</a>
<b>Physical Risk</b>	This estimates what it would cost companies as a percentage of their total value to protect their assets against more extreme climate-related weather events based on the location of their assets until 2030.	While the impact on global values is small at around 1%, these costs are certain to be incurred. We find that asset-heavy industries such as mining in locations around the Pacific are particularly impacted.	As well as showing company and portfolio-level physical risk, this has been a useful engagement tool, so we can contact those companies most exposed to better understand how they are tackling the challenge.	<a href="https://schroders.com/climate-dashboard/physical">schroders.com/climate-dashboard/physical</a>
<b>SustainEx</b>	This tool quantifies the hidden environmental and social costs that companies create, both positive and negative, that are evidenced by academic research.	If all of the impacts our research identified were crystallised as financial costs, the \$4.1 trillion of profits generated by listed companies would fall by 55%.	This tool is available to our investment teams through a number of channels including our portfolio management platform. It enables them to have a holistic understanding of the net impact that their portfolio and individual companies have on society and the environment.	<a href="https://schroders.com/sustainex">schroders.com/sustainex</a>

## Non-Financial Reporting Directive

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

Reporting requirements	Policies and standards which govern our approach <sup>1</sup>	Due diligence, outcomes and additional information	Page number
Environmental matters	Environmental, social and governance policy Statement of compliance with UN Principles for Responsible Investment	Our approach to corporate responsibility	36
		ESG engagements	34
		Climate change and the environment	40
Employees	Guiding principles and values	Retention of key talent	30
	Directors' remuneration policy	Creating a place where people want to work	31-33
	Policy on Board diversity	Gender diversity	32
	Group health and safety policy	Employee opinion survey highlights	30
	Group malus and clawback policy	Employee length of service	30
	Internal HR policies including equal opportunities policy, flexible working policy, parents and family leave policy, mental health and wellbeing policy, trans-inclusion policy	Policy on Board diversity	64
		Remuneration report	72-108
Human rights	Slavery and human trafficking statement	Our approach to corporate responsibility	36
	Supplier Code of Conduct	Human rights	36
	Personal data policy	Our suppliers	37
	Environmental, social and governance policy	Our clients	37
	United Nations Guiding Principles on Business and Human Rights	Human rights	36
Social matters	Volunteering policy	Our approach to corporate responsibility	36
	Supplier code of conduct	Our communities	38
	Environmental, social and governance policy	Charitable giving	38
	Statement of compliance with the UK Stewardship Code	Our clients	37
	Statement of compliance with UN Principles for Responsible Investment	The environment	41
		Our approach to tax	37
Anti-bribery and anti-corruption	Anti-bribery and corruption and inducements policies (including gifts and entertainment)	Key risks and mitigations	44-50
	Anti-money laundering and counter-terrorist financing policy	Process risk	49
	Group tax strategy and tax evasion policy	Creating a place people want to work	31
	Whistleblowing policy		

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

Additional information	
Key risks and mitigations	44-50
Description of key risks	47-49
Business model	10-11
Non-financial indicators	18-19

# Risk management culture focused on integrity and good conduct

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

## Managing risk

The Board is accountable for risk and oversight of the risk management process. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on the business. Non-executive oversight of the risk management framework process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee, more details of which are on page 66.

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

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group. Independent monitoring and reporting of risks and controls across the Group and at a legal entity level is undertaken by the second line.

The Chief Financial Officer chairs the Group Risk Committee, which normally meets ten times a year. The Group Risk Committee supports the Chief Financial Officer and GMC in discharging their risk management responsibilities. The committee is attended by the heads of the control functions (Group Risk, Compliance, Legal and Internal Audit) along with chief operating officers from across the business and senior management from Distribution, Product and Wealth Management. Other GMC members regularly attend. The Group Risk Committee reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and current exposures to our key risks and considers issues as they arise. The Group Risk Committee and the Wealth Management Audit and Risk Committee (WMARC), details of which are on page 66, receive reports relating to the risk profile of Wealth Management.

The Group Conflicts Committee supports the Group Risk Committee and GMC in identifying and managing conflicts that may arise from time to time in our diversified business.

## Lines of defence

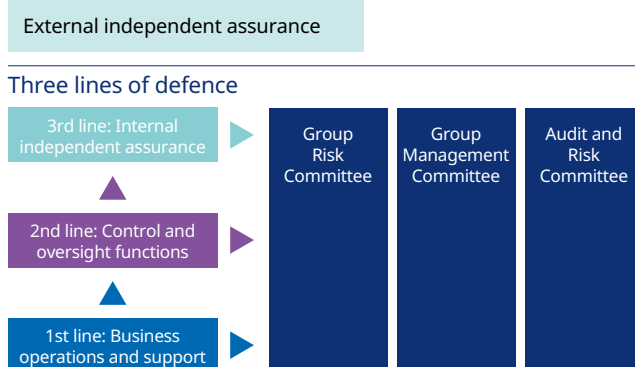
The first line of defence against undesirable outcomes is the business functions themselves and the line managers across the Group. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks, including through the Risk and Control Assessment process.

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

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

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

## Lines of defence overview





Our control framework is underpinned by a set of policies, which are reviewed annually to ensure they remain relevant. Our approach is to have simple, principles-based policies that are adopted across the Group. This means our employees are well supported with clear guidance on what they should do and what we expect of them, while similarly our service providers and partners are briefed on the standards we expect them to adhere to. The Group policy framework helps our newly acquired businesses understand the culture of the Group and the parameters we expect them to operate within.

Specific initiatives were undertaken during 2019 by Group Risk that covered a wide range of activities across the Group. Some of these are summarised below:

- Continued to provide focused oversight of our cyber risk through the Information Security Risk Oversight Committee (ISROC). This included the sponsorship of an independent review that provided us with a benchmark of the Group's security capabilities against industry best practice and assessed the security control framework against our risk appetite. The results were presented to the Group Risk Committee and to the Audit and Risk Committee and used to inform the information security strategy.
- We have reviewed and enhanced the Group's business continuity and disaster recovery strategy, the results of which were presented to the Group Risk Committee and the Audit and Risk Committee. A key focus is ensuring our critical business services are resilient and that we can continue to operate in the event of loss of a critical service provider.
- Working closely with our Information Security team, our annual crisis management exercise challenged and tested our GMC members to navigate through a cyber attack, the loss of a critical service provider and a potential external fraud scenario.
- We have tested our business continuity and recovery options, including our pandemic plans, which have been activated in response to Covid-19.
- Working with our investment operations teams we have been assessing the resilience of our investment platform and our ability to service our customers in the event of an outage.
- We have reviewed our procurement approach to improve management of third-party suppliers and in turn strengthened the linkage to resilience of the Group's activities.
- We have supported growth initiatives in our Private Assets business and our global operating strategy.
- We have assessed the risks in our acquisitions, investments and joint ventures including ThirdRock, Blue Asset Management, BlueOrchard and Schroders Personal Wealth.
- We have combined our cyber and technology risk oversight team with our business continuity team.
- A number of thematic investment risk reviews have been conducted to support the oversight and challenge of risk-taking within portfolios. Themes covered included fund capacity, private asset risks and the levels of active risk taking.
- We have enhanced our liquidity oversight framework. Additional metrics were introduced to provide early warning signals and an enhanced Liquidity Management Plan was established to support decision making under stressed market conditions.

The Risk and Control Assessment (RCA) process continues to be a key part of our operational risk framework and is summarised in the following diagram. In 2019, we have strengthened the challenge and oversight performed by our extended second line functions: Governance, Compliance, HR, Tax, Finance and Legal.

## Risk and Control Assessment Process



## Key risks

### Assessment of key risks

We periodically assess the risks faced by our business and as a result the key risks for the Group are updated to ensure they are well understood and managed. We have identified 19 key risks across Strategic, Business and Operational risk categories, as shown on the following pages.

These risks have been assessed in light of the current environment, taking into consideration the views of subject matter experts and risk owners within the firm, geopolitical risks that may impact our clients, market conditions and the ability of our employees to operate in local offices around the world. Regulatory sentiment, changes within the business and threats with uncertain impact, probability and timeframes could impact the Group. We continuously monitor internal and external environments to identify new and emerging risks. We then analyse each risk and assess how this can be managed and mitigated.

We have added Climate change risk as a new Business risk, to highlight the risk of climate change to the Group and the portfolios we manage. We have considered the physical risks, as a result of more extreme weather events and prolonged climate impacts from increased global temperatures, and the transition risk as economies of the world shift towards a low carbon environment. Importantly we have recognised the impact if we do not deliver on our commitments made to stakeholders and the reputational damage this may cause.

We have added Business services resilience risk as a new Operational risk, which replaces Third-party service provider risk. This provides an aggregate view of the interdependencies between Technology risk, third-party service providers and Process risk which must be managed to mitigate a failure of a critical business process. This also meets regulatory expectations as required.

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

### Strategic risks

1	Changing investor requirements
2	Fee attrition
3	Business model disruption
4	Market returns

### Business risks

5	Reputational risk
6	Investment performance risk
7	Climate change risk
8	Product risk
9	Business concentration risk
10	Financial instrument risk

### Operational risks

11	Conduct and regulatory risk
12	Information security risk
13	Process risk
14	Business services resilience risk
15	Fraud risk
16	Technology risk
17	Legal risk
18	Tax risk
19	People and employment practices risk

### Reporting on our material risks

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

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

### Risk impact matrix



# Key risks

## Strategic risks

**Impact for Schroders:** These risks relate to our strategy and the environment in which we operate. If these risks are not carefully managed, our AUM may be lowered and likewise the income we receive may decrease. Our business plans seek to address these risks by responding to the challenges faced and by growing our assets and earnings.

### Higher-rated key risks

### How we manage this

#### 1 Changing investor requirements

Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect these changes could lead to a drop in AUM.

This continues to be notable in the Solvency II driven investment requirements of clients and the move from Defined Benefit to Defined Contribution pensions for example.

ESG is a material part of our client considerations and we expect Climate change risk to feature more heavily in future investment requirements and offerings.

We have a dedicated Product, Solutions and Quant division that focuses on developing our product strategy. We continue to expand our capabilities into new areas, including Private Assets, and to commit seed capital to developing Solutions. We carefully manage our cost base to respond to our clients' changing asset allocation requirements.

#### 2 Fee attrition

Clients allocate more of their assets to passive products with a lower fee budget allocated to public markets, which results in a smaller pool of capital allocated to active fund managers and increased competition on price.

A move towards vertical integration can also impact revenues of investment managers as the pricing power may reside with the organisations that have the end client relationship.

We are increasing our focus on Solutions and outcome-oriented strategies and Private Assets, which diversify our fee income. We are also increasingly diversifying our product offering, supporting long-term profitability.

We also remain focused on our strategic objectives of moving closer to the end client.

#### 3 Business model disruption

Our business model could be disrupted by a range of external factors including technology changes, product evolution and market participants.

Changes in regulation such as the value assessment, RDR and PRIIPS could be disruptors to the traditional role of asset managers.

We are increasing our delivery of efficiencies and insights through technology. Digital initiatives are in progress to improve client experience, engagement and servicing. We are investing in our technology platform to support scalability, agility in our product offering and our expanding Private Assets business.

#### 4 Market returns

Our income is primarily derived from the assets we manage. Falling markets reduce our AUM and therefore impact revenues. This could be sudden in cases such as Covid-19 where material disruption to the supply chain and distribution networks in consumer activity may occur. Market falls may also be exacerbated by geopolitical risks and the currency in which the AUM is denominated and clients are billed.

Economic uncertainty and slowing global economies may also impact markets. The response of central banks may have a dependency on fiscal measures which could impact market returns. Greater cooperation across central banks may be required, at a time when economies are becoming more inward looking. Capital investment may be targeted at domestic growth rather than being allocated to cross border initiatives.

Lower levels of capital raising on public markets shrinks the size of the investable market and the opportunity for returns.

We have diversified income streams across a range of markets to mitigate falling markets in any one area.

Our focus on growing our Private Assets & Alternative product range allows us to have a broader range of income streams which are less directly linked to public markets.

We strive to outperform our competitors with a view to attracting assets, which may offset a decline or fall in any given market while pursuing returns for our clients.



## Business risks

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

Higher-rated key risks	How we manage this
<p><b>5 Reputational risk</b></p> <p>This may arise from poor conduct, judgement or risk events due to weaknesses in systems or controls. The reputation of Schroders can be impacted by any of our key risks and in particular for Conduct and regulatory risks which may materialise.</p>	<p>We consider reputational risks when initiating changes to our strategy or operating model and maintain high standards of conduct.</p>
<p><b>6 Investment performance risk</b></p> <p>There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent performance, resulting in clients moving assets away from the Group, or a failure to attract new assets.</p>	<p>We have clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge.</p> <p>Oversight of both risk and performance is embedded in our business processes and governance.</p>
<p><b>7 Climate change risk</b></p> <p>In terms of the assets we manage, this is the risk of a failure to understand the pricing of assets affected by climate change due to declining cash flows from industries or those with a lower demand from investors. This may lead to poor investment decisions and more volatile pricing as asset prices adjust to reflect the increasing regulation of carbon emissions. Our business may also be impacted if we fail to offer climate friendly products which will impact our performance, brand and reputation.</p> <p>Our business activities are directly or indirectly disrupted if we do not meet corporate emissions targets.</p>	<p>We have developed a range of tools to better understand the impacts of climate change on the portfolios we manage, including a physical risk model and a transition risk model.</p> <p>We assess our corporate exposure to physical climate change risks and that of our supply chain.</p> <p>We actively monitor our emissions and have adopted targets to reduce our carbon footprint.</p>
Lower-rated key risks	How we manage this
<p><b>8 Product risk</b></p> <p>There is a risk that our product offering is not suitably diversified, or does not provide access to strategies that will help clients to meet their objectives. There is also the risk that the product liquidity is not consistent with the product description, or the redemption requirements of clients.</p>	<p>Our dedicated Product, Solutions and Quant function focuses on strategy, innovation and changing client requirements.</p> <p>We have established a Product Governance Committee to monitor products at each stage of their lifecycle.</p> <p>We have a liquidity risk management framework and monitor liquidity on an ongoing basis.</p>
<p><b>9 Business concentration risk</b></p> <p>The risk that insufficient diversification in distribution channels, products, clients, markets or income streams could impact our business.</p>	<p>We have a broad range and scale of products, distribution and investment channels and our development of strategic relationships and acquisitions enables further diversification of income streams.</p>
<p><b>10 Financial instrument risk</b></p> <p>We face market, credit, liquidity and capital risks from the instruments we manage as part of our AUM, as well as those arising from holding investments where we act as principal. The impact of financial instrument risks on our business may negatively affect our earnings, balance sheet or our ability to invest in our business.</p>	<p>We manage capital and liquidity through Board-set limits and in the Group Capital Committee, and the Assets and Liabilities Committees of the private banks.</p> <p>We monitor our credit and counterparty exposure in the Group balance sheet and in the bank lending portfolios.</p> <p>We manage market risks in our investment capital and foreign exchange risk in our income.</p>

## Operational risks

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

### Higher-rated key risks

### How we manage this

#### 11 Conduct and regulatory risk

The risks of inappropriate conduct, conflicts management practices or behaviour resulting in detriment and client harm, or market abuse, and of failing to meet regulatory requirements and changes.

We promote a strong compliance culture among all our staff through communication of our Group's purpose and values, policies and procedures, appropriate governance, monitoring and assurance activities, staff training, appropriate remuneration structures and the annual appraisal process.

#### 12 Information security risk

The risk that our technology is compromised or inadequate, resulting in the confidentiality, integrity or availability of our clients' and our own data or Schroders' services being negatively impacted.

Formal governance of information security (cyber) risks exists across the three lines of defence and is monitored by the Information Security Risk Oversight Committee.

#### 13 Process risk

The risk of failure of significant business processes, such as mandate compliance, client suitability checks, financial crime risk management and asset pricing.

Our key business processes are regularly reviewed and the risks assessed through the RCA process. When we undertake change, such as acquisitions, we assess new processes that may arise.

#### 14 Business services resilience risk

The risk we are unable to operate critical business services, this includes our third parties' readiness to manage the risk from Covid-19.

We manage this through relevant processes, procedures and plans which are tested to ensure we can maintain service, respond or recover.

### Lower-rated key risks

### How we manage this

#### 15 Fraud risk

Fraud could arise from any attempt to defraud the business or our clients by circumventing our processes and controls.

Controls are in place, which are assessed as part of the RCA process. We apply particular focus to our payment processes.

#### 16 Technology risk

A change or failure in technology could pose a risk to the integrity or availability of the services we offer.

Policies and technical standards are deployed, together with robust project and change management processes, which cover the assessment of business requirements, risk and scalability.

#### 17 Legal risk

The risk that we, our clients, our suppliers or other third parties fail to meet or record legal or regulatory obligations, and related disputes.

Our policies and procedures consider Legal risk as part of their design. We have an escalation process for areas of material risk and our Legal function supports our employees globally across our business.

#### 18 Tax risk

We and the funds we manage are exposed to tax compliance and reporting risks, which include the submission of late or inaccurate tax returns.

Our tax strategy sets out our approach to managing our tax affairs, underpinned by a governance framework and supported by the Tax function, which works with management and advisers to monitor our position and relevant tax changes.

#### 19 People and employment practices risk

The inability to attract, retain or develop key employees to support our business, offer an attractive value proposition under remuneration regulations or maintain high standards in employment practices.

We have sustainable succession and employee development processes and recruit selectively through our entry-level and experienced hire programmes. We have competitive remuneration, which is designed to encourage retention, and we build depth and strength in our workforce.

## Our position on Brexit

The United Kingdom left the European Union on 31 January 2020 under the terms of the European Union (Withdrawal Agreement) Act 2020, beginning a transition period to 31 December 2020 during which EU law and the rulings of the European Court of Justice will still apply within and to the UK. Negotiations on the future relationship between the UK and the EU will continue but uncertainty remains as to what will be agreed before the end of the year.

Schroders remains well-positioned to manage the challenges that may arise as a result of Brexit, regardless of the outcome of the negotiations. Our diversified business model and significant presence in Continental Europe mean that our ability to service our European clients and continue to grow our business should be unaffected.

We have a long-standing presence in Europe with over 800 employees across 15 offices. We have obtained additional investment management permissions in Luxembourg to ensure that we can continue to offer the full range of investment services to all our EU clients. We have substance and portfolio management oversight experience in the EU to enable Schroders to perform portfolio management and to delegate portfolio management of our Luxembourg fund range and EU client mandates as appropriate to our investment centres across the world.

We have registered our Luxembourg fund ranges under the UK Financial Conduct Authority's temporary permissions regime to allow EU27-based funds to continue to be offered to clients based in the UK if necessary in future. We are closely monitoring developments to support continuity for our clients and 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 Schroders plc will continue to be viable for at least the next five years.**

## Assessment of prospects

A five-year period to December 2024 is in line with the Group's strategic business planning and forecasting period. The Group's strategic and financial planning process includes a detailed review of the business model and key planning assumptions. It is led by the Group Chief Executive and Chief Financial Officer in conjunction with management teams, with the one-year outlook most recently updated in March 2020. The business planning process considers the longer-term headwinds that may materially impact the Group, and assesses the need for business model changes. The business plan reflects the Group's strategy, which is summarised on pages 16-17.

Key assumptions underpinning the financial planning process include AUM growth from both markets and net new business; changes to net operating revenue margins owing to changes in business mix, planned business activity and industry-wide margin pressures; and additional costs comprising the expected total compensation cost ratio and non-compensation costs including those arising from continued investment in the development of the business.

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

## Assessment of viability

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

Stress testing is performed on the Group's business plan, which considers the impact of a number of the Group's key risks crystallising over the assessment period. This includes consideration of new and emerging risks, identified through the business planning process, that could have a material impact over the five-year planning period.

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

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

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

Having reviewed the results of the stress tests, the Directors have concluded that the Group would have sufficient capital and liquid resources in the respective scenarios and that the Group's ongoing viability would be sustained. In drawing this conclusion, the Directors have regard to business model changes that may be required given the new environment in which the Group would be operating. The stress scenario assumptions include maintaining the Group's dividend policy but this and other assumptions would be reassessed if the circumstances determined this to be necessary over the longer term.

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

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

# Leading a world class business



**Michael Dobson**  
Chairman

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

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

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

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



**Peter Harrison**  
Group Chief Executive

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

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

**External appointments:** Chairman of the Investment Association until 1 May 2020, a Director of FCLT Global and a member of the Takeover Panel.



**Richard Keers**  
Chief Financial Officer

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 was a non-executive member of Lloyd's Franchise Board and Chairman of its Audit Committee until 31 December 2019.



**Ian King**  
Senior Independent Director

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

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

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

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



**Sir Damon Buffini**  
Independent non-executive Director

Appointed in February 2018.

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

**External appointments:** Chair of the National Theatre and was Chair of the Government's Patient Capital Review.

**Committee membership:** Chairman of the Remuneration Committee and a member of the Nominations Committee.



**Rhian Davies**  
Independent non-executive Director

Appointed in July 2015.

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

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



**Rakhi Goss-Custard**  
Independent non-executive Director

Appointed in January 2017.

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

**External appointments:** Non-executive Director of Kingfisher plc and Rightmove plc.

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



**Philip Mallinckrodt**  
Non-executive Director

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

**Experience:** He started his career at Credit Suisse First Boston in 1985. He first joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002 as Head of Corporate Development, was Group Head of Wealth Management from 2006 to 2016, and then Group Head of Private Assets and Wealth Management until 1 March 2017. He will retire at the AGM in April 2020.

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

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



**Leonie Schroder**  
Non-executive Director

Appointed in March 2019.

**Experience:** She is a descendant of John Henry Schroder, co-founder of Schroders in 1804. She has held a number of roles in the charity sector and is currently a director of the Schroder Charity Trust and a number of private limited companies. Leonie's appointment reflects the commitment to Schroders of the principal shareholder group, which has been an important part of Schroders' success over the long term.

**External appointments:** Schroders Charity Trust and a number of private limited companies.

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



**Deborah Waterhouse**  
Independent non-executive Director

Appointed in March 2019.

**Experience:** She has been the CEO of ViiV Healthcare, a major international business, since 2017. ViiV Healthcare is a leading global company, majority owned by GlaxoSmithKline and focused on advancing science into HIV treatment, prevention and care.

**External appointments:** Private limited companies relating to ViiV Healthcare.

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



**Graham Staples**  
Group Company Secretary

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

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



# Experienced leadership

The Group Management Committee (known as the GMC) is our senior management team and is the principal advisory committee to Peter Harrison, our Group Chief Executive.

Full biographies of the GMC members are available at [schroders.com/en/investor-relations/shareholders-and-governance/group-management-committee](https://schroders.com/en/investor-relations/shareholders-and-governance/group-management-committee)



**Peter Harrison**  
Group Chief Executive



**Richard Keers**  
Chief Financial Officer



**Rory Bateman**  
Head of Equities



**Stewart Carmichael**  
Chief Technology Officer



**Lieven Debruyne**  
Global Head of Distribution



**Peter Hall**  
Global Head of Wealth Management



**Emma Holden**  
Global Head of Human Resources



**Louise Hosking**  
Chief of Staff

## Committee changes

Karl Dasher, Nicky Richards and John Troiano stood down from the Committee in 2019. Their biographies are set out in the 2018 Annual Report and Accounts. Carolyn Sims will step down from the Committee in May 2020.



**Johanna Kyrklund**  
Group CIO and Global Head of Multi-asset Investments



**Philippe Lespinard**  
Head of Fixed Income



**Carolina Minio-Paluello**  
Global Head of Product, Solutions & Quant



**Richard Mountford**  
Head of Planning, Adviser to the Group Chief Executive



**Charles Prideaux**  
Global Head of Investment



**Carolyn Sims**  
Chief Financial Officer of Wealth Management



**Howard Trust**  
General Counsel



**Georg Wunderlin**  
Global Head of Private Assets

# Focusing on strategy and purpose

**I am pleased to introduce our corporate governance report for 2019 in which we describe our governance arrangements, the operation of the Board and its Committees and how the Board discharged its responsibilities during the year.**

2019 saw continuing change in the corporate governance environment. The revised UK Governance Code took full effect, with its emphasis on corporate purpose and stakeholders other than shareholders. There was further scrutiny of the audit market culminating in Sir Donald Brydon's proposals for the audit profession. We are also seeing more detail on the likely role, structure and approach of the new regulatory body, the Audit, Reporting and Governance Authority, proposed by Sir John Kingman.

The Board has continued to monitor these developments closely and fully supports efforts to improve governance standards. High standards of governance are essential in rebuilding trust in business and in making the UK an attractive place to do business.

We have not made any fundamental changes to our governance framework, but the Board has increased its emphasis on its consideration of our wider stakeholders and on our overall corporate purpose.

We continued to focus primarily on our long term strategy and we have outlined in this report the principal agenda items for the eight Board meetings we held in 2019. We have also referred to the subjects we covered at our regular Board Briefing sessions, one of which concentrated on corporate purpose.

In addition to our annual in depth review of the Group's overall strategy which we held in May, initially in Shanghai and Hong Kong and then in London, we also reviewed most of our major businesses during the year.

The Board continues to evolve, both in its membership and in how it operates. We continually seek improvements, in the focus of the agenda and our discussions, in Board papers, in follow through and in regular reviews of the efficacy of the Board's decisions. In 2019 we used an external consultant to conduct the annual Board Review and the feedback was very encouraging, referencing the improvement that we have seen in the workings of the Board in recent years. We give more detail on this on page 60.

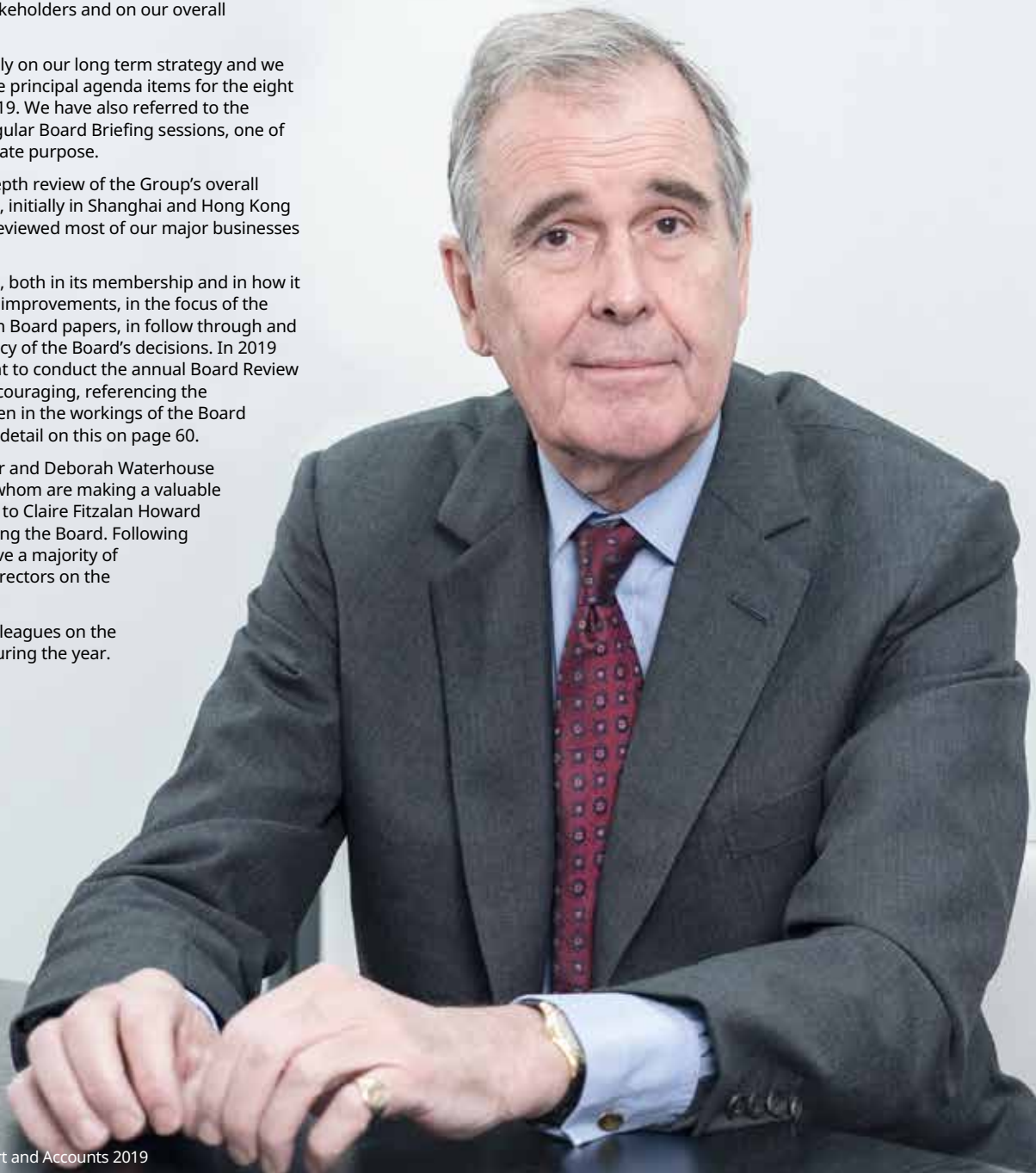
We welcomed Leonie Schroder and Deborah Waterhouse to the Board in 2019, both of whom are making a valuable contribution. We look forward to Claire Fitzalan Howard and Matthew Westerman joining the Board. Following their appointments we will have a majority of independent non-executive Directors on the Board in line with our policy.

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

**Michael Dobson**

Chairman

4 March 2020





Directors are expected to attend all meetings of the Board and Committees on which they serve. Details of Board and Committee attendance are included in the table below. Where a Director is unable to attend a meeting their views are sought in advance and shared with the Board.

### 2019 Board and Committee meeting attendance

	Board <sup>1</sup>	Audit and Risk Committee	Remuneration Committee <sup>2</sup>	Nominations Committee
Michael Dobson	8/8			4/4
<b>Executive Directors</b>				
Peter Harrison	8/8			
Richard Keers	8/8			
<b>Non-executive Directors</b>				
Ian King <sup>3</sup>	8/8		8/9	4/4
Robin Buchanan <sup>4</sup>	1/1	1/1	1/1	2/2
Sir Damon Buffini <sup>5</sup>	8/8		9/9	4/4
Rhian Davies <sup>6</sup>	7/8	5/5	1/1	4/4
Rakhi Goss-Custard	8/8	5/5		4/4
Philip Mallinckrodt	8/8			4/4
Nichola Pease <sup>7</sup>	5/6	4/4	8/8	3/3
Bruno Schroder <sup>8</sup>				1/1
Leonie Schroder <sup>9</sup>	7/7			2/2
Deborah Waterhouse <sup>9</sup>	7/7	1/1		2/2

1. There were five scheduled Board meetings held during the year and three additional meetings to consider Group strategy and the remuneration policy, the acquisition of BlueOrchard and the resignation of Nichola Pease.
2. There were four scheduled Remuneration Committee meetings held during the year and five additional meetings outlined on page 80.
3. Ian King was unable to attend one of the additional Remuneration Committee meetings, which was scheduled at short notice, due to a prior commitment.
4. Robin Buchanan was an independent non-executive Director until his retirement on 2 May 2019.
5. Sir Damon Buffini became Chair of the Remuneration Committee on 6 November 2019.
6. Rhian Davies missed one additional Board meeting, which was scheduled at short notice, due to a prior commitment. Rhian became a member of the Remuneration Committee on 6 November 2019.
7. Nichola Pease was an independent non-executive Director until her resignation on 6 November 2019.
8. Bruno Schroder was a non-executive Director until he passed away on 20 February 2019.
9. Leonie Schroder and Deborah Waterhouse were appointed to the Board with effect from 11 March 2019.

### Compliance with the 2018 UK Corporate Governance Code (Code)

Throughout 2019, the Company has applied the main principles and provisions of the Code with the exception of Provisions 9, 19 and 32. Michael Dobson was not independent on appointment as Chairman in April 2016, and has served on the Board more than nine years since he was first appointed. The Chairman's appointment was fully explained in the 2015 Annual Report and Accounts and the Board confirms its view that the Chairman's continued service is in the best interests of the Company and its stakeholders. Sir Damon Buffini was appointed as Chair of the Remuneration Committee on 6 November 2019, having served on the Committee for marginally less than the full 12 months required under Provision 32. This was due to Nichola Pease leaving the Board at short notice in November. Until then, there was an absolute majority of independent Directors on the Board. Matthew Westerman will join the Board on 9 March, following which there will again be an absolute majority of independent non-executives on the Board, in line with the Board's stated policy.

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

### The Board and its committees

The Board has collective responsibility for the management, direction and performance of the Company. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. In discharging its responsibilities, the Board takes appropriate account of the interests of our wider stakeholders including clients, employees, external service providers, regulators and wider society. Certain decisions can only be taken by the Board, including deciding

on the Group's overall strategy, significant new business activities and the strategy for management of the Group's investment capital. These are contained in the Schedule of Matters Reserved to the Board, which can be found on the Company's Investor Relations website, [schroders.com/ir](http://schroders.com/ir).

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

There is also a Chairman's Committee whose membership is comprised of the non-executive Directors. The Chairman's Committee is not a committee of the Board and serves as an informal forum for the discussion of such matters as the Chairman considers appropriate. In 2019, the Chairman's Committee discussed the results of the external Board evaluation, the performance of the Group Chief Executive, acquisition opportunities and talent and succession planning.

There have been five Board calls during the year. These calls are used as an additional avenue for communication that supplements the formal Board meeting programme. At each call, the Group Chief Executive and Chief Financial Officer provide updates on the Group's financial performance, and an update on business issues. The Chairman also used the Board calls to update the Board on the search for new Directors.

## Governance framework

### Board

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

#### Chairman

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

#### Group Chief Executive

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

#### Senior Independent Director (SID)

The SID's role is to act as a sounding board for the Chairman, oversee the evaluation of the Chairman's performance and serve as an intermediary for the other Directors if necessary. He is also available as an additional point of contact for shareholders and other stakeholders should they wish to raise matters with him rather than the Chairman or Group Chief Executive. He is the designated non-executive Director responsible for engagement with the workforce as key stakeholders in the Company, in accordance with the Code.

#### Non-executive Directors

Non-executive Directors are expected to provide independent oversight and help develop proposals on strategy, performance and resources, including key appointments and standards of conduct.

#### Nominations Committee

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

**Chairman: Michael Dobson**

See page 64 for the Committee Report.

#### Audit and Risk Committee

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

**Chairman: Rhian Davies**

See page 66 for the Committee Report.

#### Remuneration Committee

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

**Chairman: Sir Damon Buffini**

See page 72 for the Committee Report.

### Group Management Committee

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

#### Group Capital Committee

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

#### Group Risk Committee (GRC)

Assists the Chief Financial Officer in discharging his responsibilities in respect of risk and controls. The GRC has a sub-committee the Group Conflicts Committee, which reviews and manages the process for identifying conflicts of interest.

### Board composition at 31 December 2019

#### Board composition



#### Length of tenure



Executive Directors	20%	0-3 years	50%
Non-independent non-executive Directors	30%	3-6 years	20%
Independent non-executive Directors	50%	6-9 years	10%
		9+ years	20%

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

The Nominations Committee report contains more detail on our approach to Board composition. Biographies of each of the Directors are set out on pages 52 to 53.

#### Independence

There was a short period between the unexpected resignation of Nichola Pease and the appointment of Matthew Westerman when there was not an absolute majority of independent Directors on the Board. However, the Board remains committed to its stated policy regarding the benefits of an absolute majority of independent Directors. All the non-executive Directors are independent in terms of character and judgement.

Philip Mallinckrodt is not considered independent as he is a former executive Director, has served on the Board for more than nine years

and a member of the principal shareholder group. Philip Mallinckrodt will retire from the Board at the conclusion of the AGM.

Michael Dobson, as former Chief Executive and having served more than nine years since his first appointment, is not considered independent under the Code. Leonie Schroder is not considered independent as she is a member of the principal shareholder group. The Nominations Committee believes the judgement and experience of Michael Dobson and Leonie Schroder continues to add value to the Board and the Group. The Board will therefore recommend their re-election at the 2020 AGM.

### Director appointments and time commitment

The rules providing for the appointment, election, re-election and removal of Directors are contained in the Company's Articles of Association and remain unchanged from the previous year. The Company may only amend its Articles of Association by special resolution of the shareholders.

The Company has decided that all Directors should retire and stand for re-election annually, unless they are retiring from the Board. Details of the Directors' length of tenure are set out on page 58.

Non-executive Directors' letters of appointment stipulate that they are expected to commit sufficient time to discharge their duties. The Board has adopted a policy that allows executive Directors to take up one external non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional appointments. The Board is satisfied that all Directors standing for re-election at the 2020 AGM continue to be effective and demonstrate commitment to their respective roles.

For details of executive Directors' service contracts, termination arrangements and non-executive Directors' letters of appointment, please refer to our Directors' Remuneration report from page 72.

### Key areas of focus during the year

At each scheduled Board meeting the Board discusses reports from the Group Chief Executive on the performance of the business, the Chief Financial Officer on financial performance, the Company Secretary on governance developments, and, where relevant, a report from each of the Board Committees. In addition to these regular matters, specific areas of focus by the Board during 2019 included:

Meeting dates	Key areas considered
March	<ul style="list-style-type: none"> <li>Multi-asset strategy</li> <li>Strategic partnership with LBG</li> <li>Wealth Management strategy</li> <li>Slavery and Human Trafficking statement</li> <li>Annual Report and Accounts 2018 and dividend proposal</li> </ul>
May	<ul style="list-style-type: none"> <li>Group strategic update, including competitor activity, review of acquisitions, our clients, talent, and the evolution of the core business</li> <li>Asia Pacific strategy</li> <li>China strategy</li> <li>Investment strategy</li> </ul>
July	<ul style="list-style-type: none"> <li>Investment performance review</li> <li>Political risk</li> <li>Capital update</li> <li>Remuneration policy</li> <li>Half-year results and dividend proposal</li> <li>ICAAP and ILAAP</li> </ul>
September	<ul style="list-style-type: none"> <li>Strategic forecast update</li> <li>Private assets strategy</li> <li>Capital update</li> <li>Group recovery plan and resolution pack</li> <li>Wind down plan</li> <li>People strategy</li> </ul>
November	<ul style="list-style-type: none"> <li>Equities strategy</li> <li>Capital update</li> <li>2020 budget</li> <li>BlueOrchard strategy</li> </ul>

Throughout the year, the Board continued to focus on the development of our overall strategy for the Group and the key individual drivers of growth over the next five years. Particular focus was given to the regional strategy, along with competitor activity, acquisitions, our clients, the evolution of our core business and investing for growth opportunities. As part of this, the Board visited mainland China and Hong Kong in May.

There were three additional Board meetings in 2019 to further consider the Group strategy and the remuneration policy, to approve the acquisition of BlueOrchard and to consider the resignation of Nichola Pease.

### Board induction and training

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

Following the appointment of Leonie Schroder and Deborah Waterhouse in March 2019, a comprehensive and tailored induction programme was provided and is ongoing.

The induction process involves:

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

The induction process is reviewed on a regular basis and is updated and tailored to ensure it remains appropriate for the needs of newly appointed Directors.

Committee-specific inductions are also arranged when Committee membership changes, and these induction processes are tailored to the skills and knowledge of the individual and the forthcoming Committee agenda items.

Induction and briefing meetings are generally opened up to all Directors to attend on an optional basis.

The Board believes that the ongoing development and briefing of Directors is an important aspect of the Board's agenda. Briefing sessions are arranged each year which, during 2019, included presentations on our corporate responsibility activities and our corporate purpose. Members of the Board Committees also receive regular updates on technical developments at scheduled Committee meetings.

### 2018 Board evaluation (internal)

The Board undertook an internal evaluation process. The 2018 Board evaluation identified a number of recommendations to maintain and improve the Board's effectiveness:

Recommendation	Actions taken/progress
Understanding culture, employee engagement and compensation	Ian King now chairs the global employee forum
More opportunities for the Board directors to meet with senior management	<p>Non-executive directors now attend GMC lunches</p> <p>There are more informal meetings between Board and senior management</p> <p>GMC members are invited to attend Board meetings</p>
Broadening and deepening the non-executives' knowledge of the industry and our business outside the formal Board meetings	<p>The Board visited mainland China and Hong Kong</p> <p>Continued Board and Committee briefings on topical issues</p>

## 2019 Board evaluation

The 2019 Board evaluation was facilitated externally, one year earlier than required by the Code. Independent Board Evaluation (IBE) were selected to facilitate the evaluation. They have no other connection with the Company. The process was undertaken between September and November. Representatives from IBE attended one meeting each of the Board, Remuneration Committee, Audit and Risk Committee and Nominations Committee. They also undertook detailed interviews with all Directors and a number of senior executives who attended at or presented to the Board and the Committees during the year.

IBE prepared separate reports on the Board, each of the Committees, each Director and the Chairman. The Board report was discussed at a meeting of the Chairman's Committee in November. The Committee reports were discussed directly with the Chairs of the respective Committees. Ian King discussed the Chairman's report directly with the Chairman. The individual Director reports were sent to the respective Director under cover of a note from the Chairman, with some being followed up with meetings or calls.

The feedback from Board members was very positive. The Board is confident in its own high degree of accountability to shareholders and of the high standard of governance and compliance work overseen by the Board supported by a high-quality secretariat. These are consistent themes in recent board evaluations. Pockets of excellence are also developing in the way in which the Board handles recruitment of new Directors and the induction process. Other areas that came out well included a marked improvement in the quality of Board papers and the process around decision-making, and more and better-quality contact between the Board and members of the GMC and high-potential employees. The Board also felt the balance of the Board's agenda and its focus on major issues was of a high standard.

The areas where there was some desire for improvement or evolution covered elements of the strategy process and board composition, with a focus on replacing skills that will be lost or have recently been lost as longer-serving Directors leave the Board. Succession planning for both the Board and key executives emerged as a priority for the year ahead. Board dynamics were good but there remains room for improvement. The overall conclusion was that the Board was continuing to improve from a relatively high level already but there were still areas which could be fine-tuned to improve its effectiveness further. A number of recommendations were put forward by IBE and the following were agreed by the Board:

- Reviewing the induction programme for new Directors, aligning it to the forward calendar of Board topics wherever possible and incorporating other suggestions to help them get up to speed on board culture and practices as soon as possible.
- Increasing the amount of informal time the Board spends together to help new members to get to know their colleagues.
- Developing a programme of informal meetings with key high-potential executives in tandem with the succession plan, to get to know them better over time.
- Including more competitor information and a stronger customer lens into Board discussions.
- Updating the board skills matrix to guide future appointments, with the focus on creating alignment between the skills of the board and the strategy.
- Prioritising asset management and breadth of plc experience in any forthcoming non-executive recruitment processes and encouraging executive Directors to find appropriate and non-conflicting non-executive board roles with another listed company.

These recommendations will be followed through during the course of 2020.

## Priorities for 2020

In light of the recommendations of the 2018 evaluation and following the 2019 process, the Board agreed a set of high-level objectives for 2020 and these include:

- Establishing clear KPIs for the most important financial and strategic measures of performance aligned to the budget and the five year plan.
- Reviewing our technology strategy and our competitive standing versus peers, particularly as it relates to risk, efficiency and client needs.
- Reviewing our Asset Management product strategy across all key segments and key areas of opportunity from both market trends and peers.
- Enabling the Board to have greater insight into our senior talent pool and how it compares with our peers.
- Reviewing our control environment and structures to ensure they are fit for purpose.
- Reviewing our culture and conduct position to ensure alignment with the needs of all our stakeholders.
- Reviewing the progress of Schroders Personal Wealth.
- Reviewing four key areas of opportunity: North America, China, Fixed Income and Wealth Management.
- Regularly reviewing investment performance across all asset classes.

## Group Company Secretary

All Directors have access to the advice and support of the Group Company Secretary and his team. Through him Directors can arrange to receive additional briefings on the business, external development and professional advice independent of the Company, at the Company's expense.

## Shareholder engagement

The Group continues to operate a complete investor relations programme. Through 2019, we implemented many of the recommendations from the investor perception study conducted in 2018. These included broadening the scope of senior management's investor relations activity, continuing to periodically hold capital markets days for shareholders and analysts and positioning our messaging around a wider strategic context.

During the year, the Group Chief Executive and Chief Financial Officer conducted roadshows in both the UK and North America. They met with a number of major shareholders in both share classes to discuss our strategy for driving the future growth of the Group. Investor Relations also conducted roadshows in continental Europe and Schroders was represented at a number of key industry conferences.

We held a capital markets day in May 2019. This was designed to provide the investment community with a deeper understanding of our strategic objectives, as well as access to senior management responsible for delivering them. This year's event focused on our strategic objective of building closer relationships with our end clients. It included presentations from members of our Wealth Management senior management team, as well as discussions on investments in technology and Schroders' focus on sustainable investing.

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



The AGM is an opportunity to meet with shareholders, hear their views and answer their questions about the Group and its business. All resolutions are voted on by way of a poll. This allows the Company to count all votes rather than just those of shareholders attending the meeting.

All resolutions are voted on separately and the final voting results are published as soon as practicable after the meeting. Together with the rest of the Board, the Chairmen of the Audit and Risk, Remuneration and Nominations Committees will be present to answer questions. The 2020 AGM will be held on Thursday 30 April 2020 at 11.30 a.m.

## Stakeholder interests and engagement

In discharging their section 172 duties the Directors have regard to the factors set out in the Chairman's statement on page 5 and any other factors considered relevant to the decision being made, such as the interests of employees and the views of regulators. The Directors acknowledge that every decision made will not necessarily result in a positive outcome for all our stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does, however, aim to make sure that its approach to decision making and consideration of stakeholder interests is consistent.

The examples provided below show how the Board considered the matters set out in section 172 in respect of some of the key decisions made during 2019. Our methods of engagement with our key stakeholders and further information on how the Board has considered their interests during the year are set out below and on pages 62 and 63.

### Acquisition of a 70% stake in BlueOrchard

In line with the Group's strategy to diversify our business model and expand our private assets capabilities to deliver more options for our clients, in October 2019 we acquired a 70% stake in BlueOrchard, a Switzerland-based impact investing asset management business with £2.9 billion AUM. This acquisition also increases our presence in emerging markets and microfinance. Impact investing aims to generate positive and measurable social and environmental impact alongside a financial return, as investors continue to look beyond pure financial return from their investments. BlueOrchard boosts the Group's ESG offering which has been a growing need for our client base. The Board assessed a number of factors before deciding that proceeding with the acquisition was overall in the long-term best interests of the Company and its stakeholders.

### Climate change and leadership

The Board recognises the importance of climate change to society as a whole and that to preserve the planet for the next generation we need to make meaningful changes to our operations and the way we work now. The Board decided that from 1 January 2020, the business will operate on a net zero carbon basis, which will be achieved where possible by minimising our carbon footprint. To help meet this ambitious target, we are planning to reduce non-essential business travel and will be planting trees to offset the carbon we cannot avoid producing. We are a signatory to the United Nations Sustainable Development Goals, and aim to be a leader on the investment implications of climate change.

### Independent non-executive representation on subsidiary boards

The Board recognises the views of global regulators as stakeholders. In light of this and in the interests of our clients and effective governance, the Board has decided to appoint two independent non-executive directors to our principal UK regulated subsidiary, Schroder Investment Management Limited, even though there is no regulatory requirement to do so. The inclusion of independent non-executive directors allows us to encourage diversity of thought, to provide independent challenge and oversight and to meet the challenges of developing regulatory expectations alongside acting in our clients' interests.

### Remuneration policy

Ahead of proposing a new remuneration policy for approval by shareholders at the AGM in 2020, the Board and senior management have engaged with our key shareholders over the past 12 months, in order to understand concerns and create alignment across stakeholder groups. This has been a key consideration during the year for the Remuneration Committee and the Board. Our remuneration principles are designed to promote the long-term sustainable success of the Group in the interests of all stakeholders. The proposed policy looks to address the feedback received during the consultation process and from previous engagement.

### Global Employee Forum (GEF) discussions

The Board considers the impacts on and, where possible, the views of employees in relevant key decisions. The GEF is one mechanism used in this process. As part of our 2020 planning process and in light of the impact of challenging market conditions across the asset management industry, the Board commenced a cost reduction initiative reviewing both compensation and non-compensation costs. The Board considered the long-term consequences of this programme including the interests of employees and the impact on operations, recognising the importance of continued investment in areas of strategic growth. The forum, which consists of

elected regional representatives of Schroders' global workforce, was briefed in advance to enable them to engage with the wider workforce in a transparent way and allow representatives to support impacted employees more effectively. Ian King, the designated non-executive Director responsible for gathering workforce feedback, chaired the forum to engage with and listen to employee views. The Board recognises that the cost reduction programme was not in the interests of all stakeholders but considered it was in the long-term interests of the majority of stakeholders to proceed with the programme.

## Stakeholder interests

### Our stakeholders

#### Clients



See page 10

#### Shareholders



See page 20

#### People



See page 30

### Why they are important

Clients are the central focus of our business. The Group's resilience and ongoing success is built upon an ability to understand clients' needs and respond to them. This allows us to anticipate how these needs will evolve and to construct products that meet their financial goals and create better futures.

We rely on the support and engagement of our shareholders to deliver our strategic objectives and grow the business. Our shareholder base supports the long-term approach we take in the management of our business.

Our people are central to the ongoing success of the business. We are proud of our reputation as an employer of choice. Our people strategy aims to develop an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs.

### How we engage and consider their interests

The client service teams build lasting relationships with current and potential clients to develop a clear view of client objectives and how these are likely to evolve.

A strategic goal of the Group is to get closer to the end client investing in our products, which was a key consideration in setting up Schroders Personal Wealth, which was launched in October 2019. We view this joint venture and our strategic partnership with LBG as highly beneficial to the Group's clients and shareholders.

The expansion of our product range and further development of our private assets business was a key consideration for the Board in relation to the acquisition of a 70% stake in BlueOrchard. We have also committed to integrating Environment, Social and Corporate Governance (ESG) across 100% of our managed assets by the end of 2020, in response to client expectations.

The Board considered the full-year and half-year results. The Group Chief Executive and Chief Financial Officer presented them to shareholders. The Board answered questions around strategy and our impact on society at the 2019 AGM.

Outside of results presentations, meetings are held with shareholders throughout the year, with engagement from both executive and non-executive Directors.

We held a capital markets day in 2019 to give shareholders the opportunity to better understand our strategy and engage with senior management. Schroders also engaged with shareholders in relation to the updated remuneration policy that will be considered by shareholders at the 2020 AGM, and is set out in the Remuneration report from page 72.

We engage with our people through a variety of channels including management briefings, videos, an internal magazine and presentations by the Group Chief Executive to discuss progress made by the business, together with future objectives and challenges. We also conduct an annual employee opinion survey and have invested in our corporate communications to help employees understand and deliver our strategic objectives.

The Board considers the Group's employees to be an important stakeholder and the consideration of their interests forms part of many Board discussions. The Board discussed the results of the 2019 employee opinion survey and agreed an action plan to address the issues raised. The Board also met with employees based in the Hong Kong and Shanghai offices when it visited Asia in May 2019.

Ian King, the Senior Independent Director, is the designated non-executive Director responsible for gathering workforce feedback, a key requirement of the Code. Ian chairs the Global Employee Forum meetings to hear directly from employees on the issues that concern them and report these back to the Board.

## Society



See page 36

We recognise the responsibility we have to wider society and other key stakeholders. Schroders is a principles-led business and we believe that demanding high levels of corporate responsibility is the right thing to do.

We aim for high standards of governance across the Group. As an asset manager, we frequently engage with companies in which we invest on ESG concerns.

The Board agreed the Group's approach to corporate responsibility with a Corporate Responsibility Committee established with key stakeholders from our businesses. This Committee reports to the Board on the Group's Corporate Responsibility strategy and external reporting.

We committed to operating on a net zero carbon basis from 1 January 2020, which we will do, in part, reducing non-essential business travel.

We are proud to support the communities in which we operate and have a long history of contributing through donations and employee time. The Board has received a briefing on the Group's corporate responsibility activities, which have four pillars: clients, people, community and the environment.

## External service partners



See page 37

We rely on the use of external service partners to supplement our own infrastructure, benefiting from the expertise our partners provide. This enables access to lower costs for service delivery.

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

The Audit and Risk Committee reviews the Group's material outsource providers annually to ensure that the strategy for the use of outsourced suppliers remains consistent with our objective of using service partners to add value to supplement our own infrastructure.

The oversight of outsourced service providers and the use of the new front office technology platform have been key areas of focus for both the Audit and Risk Committee and the Board in 2019.

## Regulators



See page 37

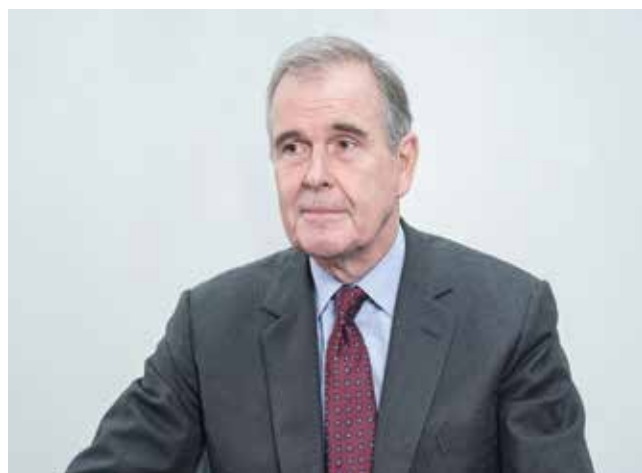
As a global business, we build positive relationships with our regulators around the world.

Regulators provide key oversight of how we run our business. Our clients' best interests are served by us working constructively with regulators.

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

The Audit and Risk Committee receives regular reports from these meetings that cover the Group's regulatory processes and procedures and its relationship with regulators around the world. The reports also outline the material changes in the regulatory environment in which the Group operates. During 2019, these included the extension of SMCR to our core Asset Management entities in the UK.

# Evolving the Board



I am pleased to present the Nominations Committee report for 2019.

## Activities of the Nomination Committee

As we stated in our last annual report, our priorities in 2019 were Board composition and succession planning for senior management and non-executive Directors.

Leonie Schroder joined the Board as a non-executive Director on 11 March 2019 in succession to Bruno Schroder.

Deborah Waterhouse also joined the Board as a non-executive Director on 11 March in succession to Robin Buchanan who was due to retire at the 2019 Annual General Meeting after nine years on the Board. Following these two appointments we continued to maintain a majority of independent directors on the Board, in line with our policy.

At the Committee's September meeting we discussed Board composition, including executive representation at the Board. The Committee agreed that additional executive input at Board meetings would be beneficial. However, we were also mindful of the need to maintain a majority of independent Directors and to avoid having a Board which was too large to be effective. Therefore we decided to invite two senior executives to attend Board meetings beginning November 2019. This arrangement will be reviewed annually.

We also began the process for succession to Nichola Pease, who we had expected to stand down at the 2021 Annual General Meeting when she would have completed nine years on the Board. The Committee discussed the key skills and experience we were looking for, notably experience in international financial markets and excellent business judgement. A detailed role profile was drawn up and approved by all Directors.

The Committee appointed Russell Reynolds Associates to undertake the search. Russell Reynolds had undertaken the search for non-executive Directors for our joint venture with LBG, but otherwise had no recent business relationship with Schroders.

In November, Nichola Pease informed us that she wished to step down from the Board early to take up another opportunity. Given that she would leave the Board in any event in 2021, we agreed to let her stand down with immediate effect with a view to taking up her new role in March 2020.

Russell Reynolds produced an initial long list of candidates aligned to our desired role profile. From these, I met eight candidates for initial interview with five going on to be interviewed by the Board as a whole. The Committee met on 3 March 2020 to make its final recommendation that Matthew Westerman be appointed to the Board. Matthew will join the Board, the Audit and Risk Committee and the Nominations Committee on 9 March 2020.

## Committee membership

- Michael Dobson (Chairman)
- Robin Buchanan (until 2 May 2019)
- Sir Damon Buffini
- Rhian Davies
- Rakhi Goss-Custard
- Ian King
- Philip Mallinckrodt
- Nichola Pease (until 6 November 2019)
- Bruno Schroder (until 20 February 2019)
- Leonie Schroder (from 11 March 2019)
- Deborah Waterhouse (from 11 March 2019)

 See page 57 for meeting attendance.

## Responsibilities of the Nominations Committee

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

The Committee's terms of reference are available on the Company's Investor Relations website at [schroders.com/ir](https://www.schroders.com/ir).

Biographical details and experience of the Committee members are set out on pages 52 and 53.

## Policy on board diversity

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

As at 31 December 2019, 40% of the Board comprised women. After the appointment of Claire Fitzalan Howard this will increase to 45%.

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



Also in light of Nichola's departure, the Board made consequential changes to the composition of the Committees. Damon Buffini, who joined the Remuneration Committee in 2018, was appointed as its Chairman and Rhian Davies was appointed a member of the Committee. Deborah Waterhouse was appointed to the Audit and Risk Committee.

Philip Mallinckrodt will retire at the conclusion of the Annual General Meeting on 30 April after 11 years as a Director. Philip is a member of the principal shareholder group and the Board's stated position is that having two members of the family serving on the Board benefits the Company in aligning interests and reinforcing long term thinking. Consequently, the Nominations Committee consulted with the trustees of the family trusts and other members of the principal shareholder group. Following those consultations, the trustees of the family trusts confirmed their support for Claire Fitzalan Howard to join the Board. The Nominations Committee took this into consideration and recommended to the Board Claire's appointment as a Director. Subject to her election by shareholders at the Annual General Meeting, Claire will join the Board and the Nominations Committee at the conclusion of the meeting on 30 April.

### Directors standing for re-election

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

As required by the UK Listing Rules, the appointment of independent Directors must be approved by a simple majority of all shareholders and by a simple majority of the independent shareholders. Further details are set out in the 2020 Notice of AGM.

### Diversity

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

The Board fully understands the importance of increasing gender diversity and committed to have a minimum of 33% of Board positions held by women by 2020. Currently 40% of the Board is comprised of women and with the appointment of Claire Fitzalan Howard, this will increase to 45%. We intend only to use the services of executive search firms which have signed up to the Voluntary Code of Conduct on Gender Diversity. The full Board diversity policy is on page 64 and also on our website.

### Evaluating the performance of the Committee

The external evaluation process for 2019 is set out in detail on page 60.

### Priorities for 2020

In recent years I have seen significant changes to the Board as part of our ongoing succession planning and the Board is well positioned to take the business forward in line with our strategy. During 2020, we will continue to review Board composition and succession planning for senior management and non-executive Directors. In this context I have asked Ian King, the Senior Independent Director, to lead the Committee in taking forward planning for my own succession as Chairman.

### Michael Dobson

Chairman of the Nominations Committee

4 March 2020

# A focused approach to monitoring and oversight



I am pleased to present the Committee's report for the year ended 31 December 2019. The Committee plays a key role in overseeing the integrity of the Company's financial statements and the robustness of the Group's systems of internal control and financial and risk management systems.

The Committee recognises its role in promoting the integrity of the Group's financial results and high quality reporting. We are thankful for the support of management and the assurance provided by EY as external auditor. We note the recommendations of the Kingman and Brydon reviews and the revised Ethical Standard and welcome the opportunity to engage in relation to these in due course.

The Committee also plays an important role in reviewing culture and conduct risk in the Group. We have continued to oversee the development of our conduct programme, designed to identify emerging trends and heightened risk issues. Culture and conduct risk is informed by a number of metrics, including conduct risk reports, employee opinion surveys and oversight by the second and third line of defence functions. The FCA has highlighted the link between conduct and corporate purpose and we believe that Schroders' conduct risk framework is well placed against these standards.

During 2019, the Committee continued to focus on its responsibility for the monitoring and oversight of the Group's control environment and system of internal controls and the Group's management of risk and compliance related activities. As part of this work, the Committee considered the Group's ICAAP, ILAAP, wind down plan, risk appetite, risk control assessments and various operational stress scenarios to support the Board's conclusions on the viability statement set out on page 51.

The Committee received briefings on key business topics during the year, including product governance and the FCA's Assessment of Value requirements, fund liquidity, FinTech solutions and the front office technology platform.

I would like to welcome Deborah Waterhouse as a member of the Committee. Deborah replaced Nichola Pease who stood down from the Board in November 2019. On behalf of the Committee, I would like to thank Nichola for her contribution over the past six years.

I am grateful to all members of the Committee for their support in 2019 and I look forward to continuing our work in 2020.


## Rhian Davies

Chairman of the Audit and Risk Committee

4 March 2020

## Committee membership

- Rhian Davies (Chairman)
- Robin Buchanan (until 2 May 2019)
- Rakhi Goss-Custard
- Nichola Pease (until 6 November 2019)
- Deborah Waterhouse (from 6 November 2019)

 See page 57 for meeting attendance.

## Responsibilities of the Audit and Risk Committee

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

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 52 and 53. The Board has determined that, by virtue of their previous experience gained in other organisations, members collectively have the competence relevant to the sector in which the Group operates. In addition, the Board considers that Rhian Davies, a chartered accountant, has the recent and relevant financial experience required to chair the Committee.

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

Representatives from EY, including Julian Young, lead audit partner for the 2019 financial year, attended all of the Committee's scheduled meetings. During 2019, two private meetings were held with the external auditor without management present. Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for any matters to be raised confidentially.

The Committee's responsibilities include reviewing the half-year and full-year results and the Annual Report and Accounts before recommending them to the Board for approval. The Committee's responsibilities also include oversight of the effectiveness of the external audit, the independence of the external auditor and recommending to the Board the appointment of the external auditor. Providing oversight of the external auditor also supports the Committee's responsibilities with respect to the content and integrity of financial reporting, the appropriateness of accounting estimates and judgements, and the effectiveness of the financial control framework.

### The Committee's primary activities are the oversight of:

Financial reporting, financial controls and audit	Risk and internal controls
<ul style="list-style-type: none"> <li>– The content and integrity of financial and Pillar 3 reporting</li> <li>– The appropriateness of accounting estimates and judgements</li> <li>– Monitoring the effectiveness of the financial control framework</li> <li>– The effectiveness of the external auditor</li> <li>– The independence of the external auditor</li> <li>– Recommending to the Board the appointment of the external auditor</li> </ul>	<ul style="list-style-type: none"> <li>– The Group's risk and control framework and whistleblowing procedures and the Head of Financial Crime Risk's reports</li> <li>– The Group's ICAAP, ILAAP, wind down plan, risk appetite and the recovery plan and resolution pack</li> <li>– The Group's regulatory compliance processes and procedures and its relationships with regulators and compliance monitoring</li> <li>– The Group's Internal Audit function</li> <li>– Emerging and thematic risks that 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 2019. At each quarterly meeting, the Committee receives updates from Internal Audit, Compliance, Risk, Legal and External Audit covering ongoing projects, the key issues that have arisen since the prior meeting and reviews a dashboard of metrics in place for monitoring key risks.

Meeting	Financial reporting, financial controls and audit	Risk and internal controls
<b>March</b>	<ul style="list-style-type: none"> <li>– 2018 Annual Report and Accounts, including financial estimates and judgements, oversight of the external auditor and governance considerations</li> <li>– Going Concern and Viability Statement</li> <li>– Pillar 3 regulatory disclosures</li> </ul>	<ul style="list-style-type: none"> <li>– Report from WMARC Chairman</li> <li>– Key risks and risk management framework</li> <li>– Internal audit control framework review</li> <li>– Global operating strategy review</li> </ul>
<b>May</b>	<ul style="list-style-type: none"> <li>– External audit plan, including significant audit risks (being improper recognition of revenue and cost of sales)</li> <li>– Quality and effectiveness of EY's 2018 audit</li> </ul>	<ul style="list-style-type: none"> <li>– ICAAP and ILAAP</li> <li>– Business continuity and resilience</li> <li>– Financial crime and AML review</li> <li>– Outsourced providers</li> <li>– Senior Managers and Certification Regime update</li> </ul>
<b>July</b>	<ul style="list-style-type: none"> <li>– Half-year results, including financial estimates and judgements</li> <li>– Accounting and governance considerations</li> </ul>	<ul style="list-style-type: none"> <li>– ICAAP and ILAAP</li> <li>– Key risks</li> <li>– Risk and control assessments</li> </ul>
<b>September</b>	<ul style="list-style-type: none"> <li>– Tax strategy</li> <li>– Audit quality review</li> </ul>	<ul style="list-style-type: none"> <li>– Cognitive science and automation</li> <li>– Group recovery plan and resolution pack</li> <li>– Wind down plan</li> <li>– Whistleblowing</li> <li>– Culture and conduct risk oversight</li> <li>– Global operating strategy update</li> <li>– MiFID II</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li>– Internal controls update</li> <li>– Accounting policies and key areas of judgement</li> <li>– Policies for safeguarding the independence of the external auditor</li> </ul>	<ul style="list-style-type: none"> <li>– Information security independent review</li> <li>– Technology risk</li> <li>– Cyber security</li> <li>– Key risk review</li> <li>– Insurance review</li> <li>– Conflicts of interest update</li> <li>– 2020 Internal Audit and Compliance testing plans</li> </ul>

### Significant accounting estimates and judgements

The preparation of the financial statements requires the application of certain estimates and judgements. The material areas of either estimation or judgement are set out in the note on the presentation of the financial statements on page 168. Each of these areas is considered by the Committee based on reports prepared by Finance. EY consider each estimate and judgement and present their conclusions to the Committee. The significant estimates and judgements considered in respect of the 2019 financial statements and the agreed action by the Committee are summarised on the following page.

Significant estimates and judgements	Action and conclusion
<p><b>Acquisition of subsidiaries, associates and joint ventures in 2019</b></p> <p>During 2019, the Group acquired a number of subsidiaries, associates and an interest in a joint venture, SPW. Significant judgements were made to estimate the fair value of the acquired intangible assets for BlueOrchard and SPW. The judgements were mainly in respect of the estimation of forecast returns from the businesses and the applicable discount rates. The other acquisitions did not require any significant estimate or judgement in the context of the Group's results.</p>	<p>The Committee considered a report from Finance that set out the principal estimates and judgements in respect of BlueOrchard and SPW. The Committee considered the assumptions and the sensitivity of the fair values to changes in these assumptions.</p> <p>Within their Audit Results Report, EY also provided the Committee with a summary of the findings from their audit of the acquisition accounting for both BlueOrchard and SPW. The Committee discussed the findings with EY who confirmed they had not identified any significant matters to draw to the Committee's attention.</p> <p>Once the Committee was satisfied with the proposals, it concluded that the estimates and judgements were appropriate.</p>
<p> Please refer to note 10 and note 29 in respect of estimates and judgements made in respect of acquisitions made in 2019</p>	
<p><b>Carried interest</b></p> <p>The Group recognises carried interest from its Private Assets business. This revenue stream is dependent on the future value of certain investments that may not crystallise until an uncertain date in the future. The Group is contractually committed to make payments based on a relevant proportion of carried interest received to various parties, including as part of deferred consideration arrangements.</p> <p>For financial reporting purposes, the Group is required to estimate the value of carried interest receivable, in accordance with the requirements of IFRS 15 Revenue from Contracts with Customers; and the fair value of related amounts payable based on the requirements of IFRS 9 Financial Instruments.</p> <p>The key inputs used in determining carried interest comprised the fair value of the relevant assets on which carried interest may be earned, future growth rates, the expected realisation dates and the discount rates.</p>	<p>The Committee received a report from Finance, which reviewed the inputs for estimating the amounts receivable and payable in respect of carried interest. The Committee considered the judgement applied in determining the principal assumptions and the sensitivity of the relevant balances to those assumptions.</p> <p>The Committee discussed the accounting for carried interest with EY and considered the findings from their audit work. Once the Committee was satisfied with the estimates and judgements applied, the estimated carrying values were approved.</p> <p>The Committee considered the disclosures presented in respect of 2019 and concluded that they were appropriate.</p>
<p> Please refer to note 2 for the estimates and judgements made in respect of carried interest receivable and amounts payable in respect of carried interest</p>	
<p><b>Pension schemes</b></p> <p>The Group's principal defined benefit pension scheme is in respect of certain UK employees and former employees (the "Scheme"). The Scheme was closed to future accrual on 30 April 2011 and, as at 31 December 2019, had a funding surplus. The pension obligation, which was valued as £865.2 million at the year end, is estimated based on a number of assumptions, including mortality rates, future investment returns, interest rates and inflation. The Scheme's assets are invested in a portfolio designed to generate returns that closely align with known cash flow requirements and to hedge the interest rate and inflation risks.</p>	<p>Finance provided the Committee with a report that included the key financial assumptions, which had been applied by the independent qualified actuaries, Aon Hewitt Limited, to determine the Scheme surplus. EY's report set out their conclusions on the pensions surplus. The Committee considered the proposed assumptions and was satisfied that the estimates were appropriate.</p>
<p> Please refer to note 25 for more information on the estimates and judgements made in respect of the Scheme</p>	
<p><b>Presentation of profits</b></p> <p>The consolidated income statement separately presents exceptional items. This presentation is permitted by accounting rules for specific items of income or expense that are considered material. This presentation involves judgement to identify the items that warrant specific disclosure in accordance with accounting standards.</p>	<p>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. EY's report set out their conclusions on the presentation of profits. For 2019, exceptional items principally comprised costs associated with acquisitions including amortisation of acquired intangible assets, and a cost reduction programme similar in nature to one undertaken in 2018.</p>
<p> Please refer to note 1b for more information on exceptional items</p>	



## Financial reporting and financial controls

The Committee reviews whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements, including those summarised on page 68. The Committee is also required to report to shareholders on the process it followed in its review of significant estimates and judgemental issues that it had considered during the year. These areas are set out on page 168. During 2019, the Committee considered the Group's proposals for the adoption of IFRS 16, the new accounting standard for leases. The impact of this standard is summarised in the basis of preparation of the financial statements on pages 167 to 168.

Financial reporting relies on there being an appropriate financial control environment. The Committee receives reports on the existing control environment as well as plans to enhance controls in the future, along with progress made against previous planned changes. The reports provide a comprehensive summary of the controls that exist across the Finance function globally and support the Group's risk and control assessments. For more details, see page 44. For 2019, the reports mainly focused on the integration of acquired businesses and the controls relating to revenue and rebates.

The Committee considers other controls that might have an impact on financial reporting. During 2019, the Committee received an independent report on the Group's cyber security arrangements from PwC. In addition, the Committee reviews the Group's tax strategy annually, which is discussed with the external auditors. For more details see page 37.

The financial control environment is also subject to audit procedures by both the Group's internal and external auditors. The Committee considered that an effective system of internal controls had been in place during the course of 2019.

The Committee also considers the Group's financial projections and the application of stress scenarios so that the Board can make the Viability Statement, as set out on page 51, and to support the going concern basis of preparation of the financial statements.

A key focus of the Committee is its work in assisting the Board in ensuring that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and assessing whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee considered the key messages communicated in the 2019 Annual Report and Accounts, as well as the information provided to the Committee and the Board as a whole during the year.

The Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2019 Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

## Oversight of the external auditor

A key part of the Committee's work consists of overseeing the relationship with EY including safeguarding independence, approving non-audit fees and recommending their appointment at the AGM. The external audit was last put out to tender in 2016, with EY replacing PwC as the Group's auditor for the financial year commencing 1 January 2018. The next external audit tender will take place within ten years of their appointment and the audit partner will be rotated within five years in line with requirements. The external auditor attends all the Committee's scheduled meetings and the Committee holds private meetings with the external auditor without management present. The Committee confirms that the Company has complied with the provisions of the Competition and Markets Authority Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

## Assessment of audit quality and effectiveness

In March 2020, ahead of the consideration of the 2019 Annual Report and Accounts, the Committee received initial feedback on the conduct of EY's 2019 audit, which identified no significant areas of concern. A full assessment of the quality and effectiveness of EY's 2018 audit was considered by way of a questionnaire completed by key stakeholders in accordance with the FRC's guidance on assessing audit quality. The findings from this questionnaire were presented to the Committee in May 2019. EY generally scored highly in the auditor effectiveness questionnaire with areas of improvement communicated to EY before they commenced work on the 2019 audit. During the year, the Committee also discussed the Audit quality review findings and root cause analysis performed by EY.

A more detailed assessment of EY's 2019 audit will be considered by the Committee at their May 2020 meeting and any findings will be implemented for their 2020 audit.

## Independence and non-audit services

The Committee has responsibility for monitoring the independence and objectivity of the external auditor. Since their appointment, EY has continued to confirm their independence during 2019 and prior to issuing their opinion on the Annual Report and Accounts. No Committee member has a connection with the external auditor.

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

In March 2020, the Committee considered the FRC's revisions to the Ethical Standard that governs auditor independence and approved changes to the policies regarding the provision of services by the external auditor.

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

Non-audit fees, excluding audit-related assurance services required under regulation, equated to 16% of audit fees (2018: 14%).

For 2019, the non-audit services not required by regulation mainly comprised assurance services in respect of controls reports, issued under International Standard on Assurance Engagements 3402 or similar principles, which are normally conducted by a Group's external auditor but are not required by regulation, and Global Investment Performance Standards verification. These services are assurance in nature and are not considered to present a risk to independence.

## Auditor oversight conclusion

The Committee is satisfied with the work of EY and that they are objective and independent. Accordingly, the Committee has recommended to the Board that a resolution be put to the 2020 AGM for the reappointment of EY as external auditor, and the Board has accepted this recommendation.

## **Risk and internal controls**

The Board has overall responsibility for the Company's system of internal controls, the ongoing monitoring of risk and internal control systems and for reporting on any significant failings or weaknesses. The system of control is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable assurance against material misstatement or loss. The Board has delegated to the Committee responsibility for monitoring and reviewing the effectiveness 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 2019, 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, the heads of Compliance, Risk and Internal Audit, and EY. This enabled an evaluation of the effectiveness of the Group's internal control framework. The Group continually works to enhance systems to support and improve the control environment.

## **Risk**

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

The Committee also considers emerging and thematic risks that may have a material impact on the Group. The Committee agreed that climate change and business services resilience risk were new key risks. Acquisition and integration risks were reviewed by the Board as a whole during 2019. During the year, the Committee reviewed the Group's arrangements in the areas of information and cyber security, robotics and technology, financial crime and culture and conduct risk.

Further information can be found in the key risks and mitigations section of the Strategic report set out on pages 44 to 50.

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

## **Information and cyber security**

The Committee has focused on information and cyber security over a number of years in light of the increase in high profile cyber attacks and the constantly evolving external landscape. The sophistication of attacks has increased with attackers using a wide variety of tactics. The Information Security team have been vigilant in protecting the Group and its clients against these attacks.

In November 2019, the results of an independent review of the Group's information security undertaken by PwC were presented to the Committee. The review showed that the Group was in a good position relative to similar organisations.

## **Robotics and technology**

Robotics and technology are key to supporting the growth of the Group's business and improving the client experience. In September 2019, the Committee received an update on the Cognitive Science and Automation (CSA) programme which had been set up to enhance digital working and deploys robotics in a number of Group functions. There are a number of key risks that arise from implementing robotics, therefore the CSA programme has worked closely with the Technology, Risk and Information Security teams to design and implement a control framework to mitigate and monitor them. The Committee will continue to monitor the work of the CSA programme as robotics are deployed across the Group during 2020.

## **Financial crime**

Financial crime mitigation is high on the Group's agenda and is a priority for all our key regulators globally. In Europe, higher standards have been and will be imposed by the 5th and 6th EU Money Laundering Directives. In light of this, there have been a number of areas of enhancement across the Group in respect of due diligence, including payment screening and transaction monitoring of clients and third parties. The acquisition of BlueOrchard and the continued growth of the Private Assets & Alternatives business has resulted in increased exposure in higher risk countries in respect of financial crime, therefore we will continue to enhance our policies and broaden and adapt their application as we integrate new acquisitions into the Group. Progress is being made towards a more consistent global approach to managing financial crime risks through a financial crime operating model and further enhancements to the procedural framework are in train.

The Committee recognises that the Group's financial crime risk framework in 2020 is key to supporting the Board's strategic goal to grow Schroders' Private Assets & Alternatives business and will continue to review this in 2020.

### Culture and conduct risk

Culture and conduct risk continues to be a priority for the Group and our regulators. The Committee receives a quarterly risk dashboard which highlights any key risks in this area and an annual update on how the Group manages its culture, mitigates conduct risk and complies with regulatory requirements in this area.

In December 2019 the Senior Managers and Certification Regime was extended to apply to all our UK regulated entities. This required greater clarity of roles and responsibilities and a set of conduct rules for everyone working in financial services. Page 107 describes some of the Group's activities around culture and conduct risk. Conduct or cultural issues are reviewed by the control function heads to identify root causes and these are responded to accordingly.

The Conduct Risk framework is being rolled out by business line to Schroders' international businesses during 2020 with existing governance structures and processes being utilised where possible. The Committee will continue to review Schroders' approach to culture and conduct risk in light of the developing regulatory landscape.

### Compliance

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

During 2019, the Committee considered the FCA's supervisory input and oversight for the principal UK regulated entities within the Group, which outlined proposed FCA work programmes for the coming 24 months and prompted some changes and further enhancements to our governance and overall risk management arrangements. The Committee was kept informed of the Group's preparations for Brexit over the course of 2019.

### Internal Audit

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

The Committee also has responsibility for approving the Internal Audit budget and being satisfied that the Internal Audit function has appropriate resources and continues to be an effective and valued assurance function within the Group. The Committee satisfies itself as to the quality, experience and expertise of the function through regular interaction with the Group Head of Internal Audit, both when the Committee meets and also through other regular meetings outside the formal meeting schedule. In addition there is an external review of the Internal Audit function every five years, which provides further assurance.

The Committee reviews Internal Audit reports on progress against a rolling plan of audits approved by the Committee on an annual basis. These reports include any significant findings from audits performed and their subsequent remediation and recommendations to improve the control environment. During the year, the Committee

agreed to proposed amendments to the Internal Audit plan to address the evolving environment in which our business operates. In 2019, additional audit work was undertaken in relation to the Group's readiness for the implementation of the Senior Managers and Certification Regime and the on-boarding of the Scottish Widows mandates and other client assets from the strategic partnership with LBG.

Both the annual compliance testing and Internal Audit plans are developed on a risk-adjusted basis to provide proportionate assurance over the Group's controls for the key risks set out on pages 44 to 50.

### Evaluating the performance of the Committee

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

### Priorities for 2020

As well as considering the standing items of business, the Committee will also focus on the following areas during 2020:

- Information and cyber security
- Thematic risks - conduct, culture and climate change risk
- Financial crime
- Operational resilience including outsourced services
- Audit and regulatory changes
- LIBOR replacement
- Global operating strategy

### Committee's assessment of internal control and risk management arrangements

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

By order of the Board.

### Rhian Davies

Chairman of the Audit and Risk Committee

4 March 2020


# Paying for performance in a simple and transparent way

## Structure of the Remuneration report

Remuneration overview	72 to 79
Remuneration governance	80 to 81
Directors' remuneration policy	82 to 92
Annual report on remuneration	93 to 108

## Committee membership

- Sir Damon Buffini (Chairman)
- Robin Buchanan (until 2 May 2019)
- Rhian Davies (from 6 November 2019)
- Ian King
- Nichola Pease (until 6 November 2019)

 See page 57 for meeting attendance and page 80 for a summary of the responsibilities of the Committee.



On behalf of the Board, I am pleased to present our 2019 Remuneration report, my first since I took over as Committee Chairman. I would like to thank Nichola Pease for her contribution to the Committee over the past five years and welcome Rhian Davies as a member of the Committee.

The Remuneration report covers the required regulatory information, balanced against commercial sensitivities, and provides further context and insight into our pay arrangements for Directors and other employees of the Group. We set out our major decisions since last year, focused on our new Directors' remuneration policy, the assessment of 2019 performance and determination of pay, and our approach to employee carried interest programmes.

Long-term thinking continues to govern our approach to remuneration. We pay for performance in a simple and transparent way, clearly aligned to shareholder and client interests, to the financial performance of the firm and to the progress made towards our strategic goals. Our remuneration strategy must reflect the global marketplace in which we operate, helping us to attract, motivate, reward and retain the talented individuals we need to maintain the Group's success.

## New Directors' remuneration policy

We are nearing the end of our current Directors' remuneration policy approval and will ask shareholders to approve a new Directors' remuneration policy at the 2020 AGM. During 2019, the Remuneration Committee and the Board reviewed in detail our remuneration approach for the executive Directors.

Shareholder views and feedback have been central to our deliberations throughout this year. We recognise the evolution of the corporate governance landscape over the past three years. We have actively consulted with our largest shareholders during 2019 to better understand their views and concerns and our policy proposals reflect the feedback we received. Pages 87 and 88 give more details.

We believe that the principles that underlie our approach remain relevant. We align employee pay with the interests of our shareholders, clients and our financial performance, aim to pay levels of total pay that are competitive with our predominantly international, and in many cases privately-owned, competitors and design our remuneration structures to encourage our employees to stay with us for the longer term. More information on our remuneration principles is set out below.

## Our remuneration principles

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

**Aligned with shareholders** A significant proportion of variable remuneration is granted in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. Executive Directors and other members of the GMC are required, over time, to acquire and retain a significant holding of Schroders shares or rights to shares. On stepping down, the executive Directors are required to maintain a level of shareholding for a further two years.

**Aligned with clients** A significant proportion of higher-earning employees' and material risk takers' variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.

**Aligned with financial performance** We target a 65% ratio of total costs to net income through the market cycle. Within that, the total spend on remuneration is managed as a percentage of net income, the total compensation ratio. This ratio is determined by the Committee and recommended to the Board. This approach aligns remuneration with financial performance.

**Competitive** Employees receive a competitive remuneration package, which is reviewed annually and benchmarked by reference to the external market. This allows us to attract and retain highly talented people, who know that good performance will be rewarded.

**Designed to encourage retention** Deferred variable remuneration does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full.



### Changes to the executive Directors' remuneration policy

The changes that we propose to the executive Directors' remuneration policy align strongly with our remuneration principles, while taking into account evolving shareholder expectations and best practice. We have identified a number of areas where we propose to refine our approach to improve its effectiveness and alignment to Schroders' long-term business strategy, as follows:

- **Greater transparency around annual bonus decision-making for the executive Directors.** We currently assess performance across a range of factors before setting executive Directors' bonuses. We propose to take this further, adopting an annual bonus "scorecard" for the executive Directors, which we believe will increase transparency and certainty for shareholders and Directors. The scorecard will consist of 70% financial factors and 30% non-financial factors.
- **Introduction of a maximum level of total remuneration for each executive Director.** This addresses concerns that some shareholders raised with our current uncapped remuneration approach, while ensuring Schroders remains able to attract, retain and motivate the calibre of individual required to run a business whose main competitors do not operate in the same UK-listed environment and are often privately owned. This will be expressed as a maximum total remuneration grant value, defined separately for each executive Director, rather than as a percentage of salary. The maximum total remuneration for the current Group Chief Executive will be £9 million, broadly in line with the historic highest pay we have awarded for this role, while the maximum for the current Chief Financial Officer will be £4.5 million.
- **Increased shareholder alignment.** We will achieve this through a greater proportion of remuneration in shares and higher post-employment shareholding requirements. The proportion of any deferred bonus that is delivered in shares will increase from 50% to 75%, alongside share-based awards under the Long Term Incentive Plan (LTIP). The remaining 25% of any deferred bonus, plus 50% of the upfront portion of the bonus (i.e. the part that is not deferred) will be delivered as fund awards, maintaining crucial alignment to clients and our regulatory obligations under the UCITS Directive and AIFMD. We are also increasing the shareholding that executive Directors must maintain for two years after stepping down as an executive Director to 500% of salary for the Group Chief Executive and 300% of salary for other executive Directors, or the actual level of shareholding on stepping down if lower.
- **Seeking shareholder approval for new LTIP and deferred bonus plan rules.** Our LTIP continues to provide long-term alignment to shareholders. The net new business and EPS measures remain challenging and the four-year vesting period followed by a one-year holding period already aligns with best practice. At the 2020 AGM, we will be seeking shareholder approval for new LTIP rules, as the current plan was approved in 2010 and so is due to expire. At the same time, we will seek shareholder approval for the Deferred Award Plan (DAP). The operation of bonus deferral for the executive Directors will be governed by the Directors' remuneration policy but the DAP rules also provide the flexibility we need to operate the different incentive structures that we require across our global operations. For awards under the proposed new DAP and LTIP rules, if the Committee uses discretion to permit a retiring executive Director to retain unvested incentive awards, the unvested elements of their awards that they are entitled to retain remain at risk of forfeiture for 12 months if the former Director gets an executive role at another publicly listed company before the award vests. The new LTIP and DAP rules are summarised in the 2020 Notice of AGM.

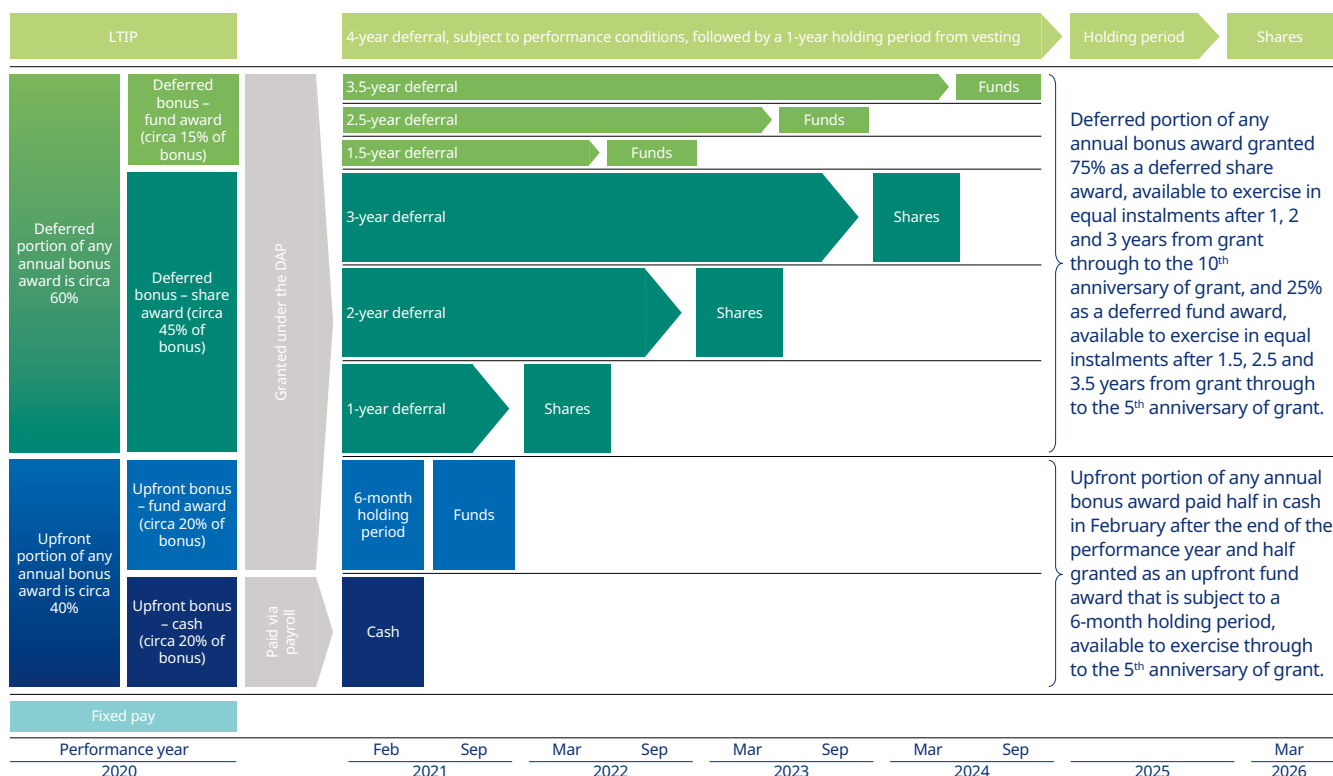
We will retain many features of our existing policy, where they already support our business strategy and ethos or where we have adopted best practice early:

- The Board has set a target ratio of total costs to net income of 65%, while recognising that in weaker markets the ratio may be higher than our long-term target. Within that, the Remuneration Committee sets a target range for our spend on remuneration, our largest cost item, capping overall spend within a total compensation ratio range of up to 45% to 49% depending on market conditions. These ratios are simple to understand and clear for both shareholders and employees.
- This approach allows us to keep base salaries relatively low, ensuring we are able to control our cost base when times are challenging. We believe maintaining this approach is preferable at a time when the asset management industry is undergoing significant change. The salaries of our executive Directors are among the lowest in the FTSE-100 and we have only increased them once in the last 10 years.
- In determining annual bonus outcomes, we focus primarily on paying for performance rather than positioning against market rates. We use market benchmarking as a sense check for remuneration decisions rather than as a driver. The Committee last reviewed the peer groups that we use when considering pay outcomes for the executive Directors during 2018. No peer group is perfect; all companies are different so there are few if any that face exactly the same opportunities and challenges that we do. We continue to believe that our publicly and privately-owned asset management peer group, along with the FTSE-100 financial services and FTSE-100 peer groups, provide useful context for our decision-making (see page 97).
- Benefits for the executive Directors, including pension entitlements, are aligned to those of our London-based workforce. As a result, the level of these benefits is low when compared to norms for executive Directors in the FTSE-100. Pension contributions (or cash in lieu) are currently 16% of pensionable salary plus a contribution to match employee contributions up to a further 2% of pensionable salary. As pensionable salary is capped at £250,000, the executive Directors' effective contribution rates as a percentage of their actual salary are 8-9% for the Group Chief Executive and 11-12% for other executive Directors, compared to 16-18% for most UK employees.
- We believe in a balance between more formulaic and discretionary approaches to assessing performance and determining annual bonus awards. While formulaic incentives can provide greater transparency, they also risk driving the wrong behaviours and the wrong long-term outcomes for shareholders, clients and other stakeholders. We look to reward appropriately all employees who perform well and adhere to the firm's values – excellence, innovation, teamwork, passion and integrity – and who demonstrate the behaviours we expect in a client-centric culture. Our approach also ensures we can reflect performance on management of risks and adherence to compliance controls in pay outcomes (see page 107).
- Our malus and clawback policy (see pages 86 and 87) sets out the circumstances in which awards granted under our incentive plans, including the LTIP, might be delayed, reduced or forfeited prior to payment (malus) or recovered following payment (clawback). The cash element of any annual bonus award to the executive Directors is also subject to clawback terms in the event of individual misconduct.
- Our incentive plan rules include post-employment restrictions when the Committee uses discretion to permit a departing employee to retain unvested incentive awards, such that the unvested elements of their awards that they are entitled to retain normally remain at risk of forfeiture for a specified period, in the event that the former employee joins a competitor or poaches Schroders' clients or employees before the award vests.

 Page 90 provides further details and additional context.

### Executive Directors' remuneration policy illustrations

The new Directors' remuneration policy will be submitted to shareholders for approval at our 2020 AGM and is set out on pages 82 to 92. The diagram below illustrates the proposed structure of the executive Directors' remuneration, including the timing of when they may receive each component of their total remuneration, across the fixed remuneration paid in the year (salary, benefits and allowances, and contributions to retirement benefits or cash in lieu), any annual bonus award in respect of the year and the LTIP awards to be granted following the year end.



### Strategic alignment of remuneration

The Committee ensures that the measures and targets used to determine the variable elements of the executive Directors' remuneration are designed to deliver value over the long term in line with our purpose, and are aligned with our strategic priorities and key performance indicators. This is illustrated below for the annual bonus scorecard metrics that the Committee has adopted for performance year 2020 and on the opposite page for the metrics that the Committee has selected to determine the vesting of LTIP awards to be granted in March 2020.

#### How the executive Directors' annual bonus awards for performance year 2020 will be determined






Annual bonus scorecard measures	Rationale for inclusion	Link to strategy
<b>Financial (70% weighting)</b>		
Profit before tax and exceptional items (35%)	A long-standing measure of the firm's financial performance, which is recognised by its stakeholders. The Committee will consider the impact of exceptional items during the period and will have the discretion to make adjustments as appropriate.	
Client investment performance over 3 and 5 years (20%)	Central to our purpose. Represents a core output of our business. Helps our clients achieve their long-term financial goals.	
Annual net new business (15%)	Net new business is a long-standing firm-wide key performance indicator. A key driver of AUM and revenues.	
<b>Non-financial (30% weighting)</b>		
Strategic progress Sustainability People and talent Risk and conduct Personal goals	The Committee will set targets to assess strategic progress, sustainability, retention of key talent, conduct and risk metrics. These are all fundamental to the Group's long-term success. Performance of each executive Director against the annual objectives agreed for 2020 will also be considered.	

Growing Asset Management

Building closer relationships with our end clients

Expanding capabilities in Private Assets

### How the vesting of LTIP awards to be granted to the executive Directors in March 2020 will be determined

LTIP measures over four years	Rationale for inclusion	Link to strategy
Earnings per share growth (50%)	Basic earnings per share (EPS) is a firm-wide key performance indicator and supports long-term financial sustainability. We aim to grow earnings per share consistently, recognising the potential impact of market volatility on results in the short term. For the LTIP, we target adjusted EPS growth over the four-year performance period to be 20-40% higher than the growth in a composite index that the Committee believes is a reasonable proxy for the market movement of Schroders assets under management.	  
Cumulative net new business (50%)	Net new business (NNB) is a firm-wide key performance indicator and is a key driver of assets under management, and in turn of revenue and profit. We seek to generate positive net new business across the Group. For the LTIP, we target cumulative NNB of £15-25 billion across the four-year performance period.	 

 Read more about the implementation of the remuneration policy for 2020 on page 108.

### Future regulatory uncertainty

New legislation in Europe, in particular the fifth iteration of the Capital Requirements Directive and the new Investment Firms Directive, has the potential to result in further remuneration policy changes being required. Much remains uncertain, not least the impact of the UK's exit from the European Union, but the executive Directors may fall under remuneration rules that limit variable remuneration to no more than 1x fixed remuneration, which can be increased to 2x with shareholder approval. If this happens, we will need to revisit the Directors' remuneration policy and make changes, in which case we will consult with shareholders, as and when we have more clarity on the requirements and how they will apply to Schroders, and seek shareholder approval as necessary.


### 2019 performance and pay outcomes

2019 saw further progress towards our strategic objectives. Following our announcement during 2018 of our strategic partnership with LBG, 2019 saw the formal launch of our Schroders Personal Wealth joint venture and the on-boarding of the first tranches of the Scottish Widows investment mandate. We expanded our Private Assets capabilities, with £2.8 billion of net new business, and by acquiring a majority stake in impact investor BlueOrchard and German-based real estate business Blue Asset Management. We grew our Wealth Management business both organically and by acquiring the Singapore-based wealth management business of ThirdRock Group. We also grew our Asset Management business, through further diversifying our global footprint, growing our Solutions business to deliver complex, risk-managed solutions to meet client needs and strengthening our sustainable investment capabilities through further development of our proprietary tools and growing the team.

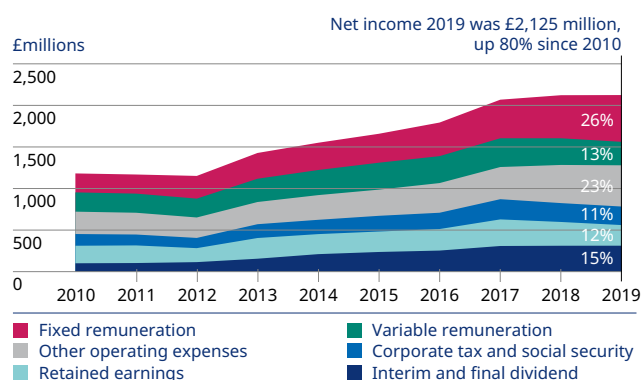
Client investment performance is a key measure of success. We remain ahead of our target, with 68% of assets outperforming their stated comparator over three years and 71% over five years.

We generated record net new business of £43.4 billion (2018: outflows of £9.5 billion), helping our AUM reach a record £500.2 billion (2018: £407.2 billion). Our ratio of total costs to net income was 67% (2018: 64%), above our 65% target, reflecting our investment to retain key talent in a challenging environment and increased non-compensation costs as a result of continued investment in systems and processes to maintain an efficient and scalable operating model as the platform for our future growth. This, combined with broadly flat net income, led to profit before tax and exceptional items of £701.2 million (2018: £761.2 million), an 8% decrease on the previous year. Basic earnings per share before exceptional items was 201.6 pence (2018: 215.8 pence), down 7%. The Board is recommending a final dividend for the year of 79 pence per share (2018: 79 pence), bringing the total dividend for the year to 114 pence per share (2018: 114 pence), in line with our dividend policy.

We remain cognisant of the significant challenges that our industry faces and in light of this wish to remain prudent on pay levels. We recommended to the Board an increase in our total compensation ratio to 44% (2018: 43%), recognising the importance to the Group's success of attracting, motivating and retaining talent. This remains below our target range of 45% to 49%, as we must manage our costs overall and continue to position the firm for the headwinds facing the industry. As a result, the annual bonus pool is down 11% on last year.

 Read more about our progress towards our strategic objectives and on business and financial performance in the Group Chief Executive's statement from page 6, Our strategy for 2020 and beyond on pages 16 and 17, our Key performance indicators on pages 18 and 19 and the Business and financial review from page 22.

The chart below shows how net income has been utilised over the ten years ended 31 December 2019, as we have continued to invest for future growth, showing remuneration costs before exceptional items, other operating expenses, taxes arising, earnings retained and shareholder distributions. Distributions to shareholders in respect of 2019 formed a similar proportion of the total as they did for 2018.



 Read more about the relative spend on pay on page 94.

### The basis for determining the executive Directors' remuneration


For the executive Directors' annual bonus awards in respect of 2019 performance and the LTIP awards we intend to grant to them in March 2020, we continue to manage the executive Directors' remuneration in line with our current Directors' remuneration policy and did not change our implementation of that policy during 2019. Our approach to determining annual bonus awards for the executive Directors in respect of 2019 performance was consistent with the approach for the rest of our employees, with the Committee determining their annual bonus awards on a discretionary basis. We look to reward a balanced approach to growing the business profitably and sustainably, encouraging the longevity of client relationships, while retaining and developing our talented people who are key to organisational stability and long-term success. Strategic progress and financial performance were central to the Committee's assessment of the performance of the Group, when determining the annual bonus awards of the executive Directors.

The charts below illustrate some of the factors that the Committee considered in assessing the performance of the Group.

The annual bonus award for each executive Director reflects their achievements during the year and their contribution to the Group, in the context of annual results for the Group that saw year-on-year declines in profit, uncertain market conditions and negative investor sentiment.

We awarded Peter Harrison, our Group Chief Executive, an annual bonus of £5.68 million, down 8% on 2018. Peter achieved a great deal during 2019, producing commendable results in a tough environment. He focused strongly on our strategic priorities and made good progress, including: concluding the partnership with LBG; launching the Schroders Personal Wealth joint venture; acquiring Blue Asset Management, a majority stake in BlueOrchard and the wealth management business of ThirdRock; agreeing a wide-ranging partnership with Bank of Communications in China; and growing the Solutions business. Net new business was a record £43.4 billion. He successfully implemented a new management structure, promoting internally into key roles and also bringing in new talent from outside the firm where appropriate. Schroders' reputation is good and we believe we are seen as positively differentiated from our key competitors.

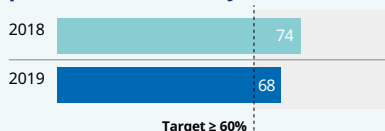
We awarded Richard Keers, our Chief Financial Officer, an annual bonus of £2.35 million, down 10% on 2018. Richard had a strong year in 2019. Having taken on responsibility for our operations platform two years ago, he successfully delivered a clear global operations strategy and strong operational delivery, including the successful transfer in of the first tranches of the Scottish Widows mandate. The Global Operating, Group Risk and Capital Committees continue to operate well under his leadership. Our internal controls framework and risk monitoring processes remain strong.

 Read more about the basis on which the Committee determined the annual bonus awards for the executive Directors on pages 99 and 100.

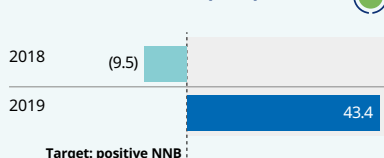
#### Key factors in assessing the performance of the Group

The following key performance indicators were among those that formed part of the Committee's determination of the executive Directors' annual bonus awards. In reviewing performance, the Committee has looked to separate Schroders-specific performance from general market factors.

##### Client investment performance over 3 years (%)



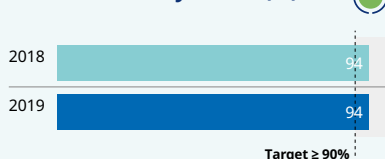
##### Net new business (£bn)



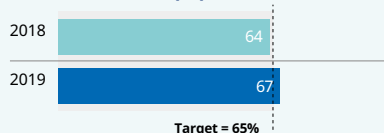
##### AUM (£bn)



##### Retention of key talent (%)



##### Ratio of total costs to net income\* (%)



##### Basic earnings per share\* (p)



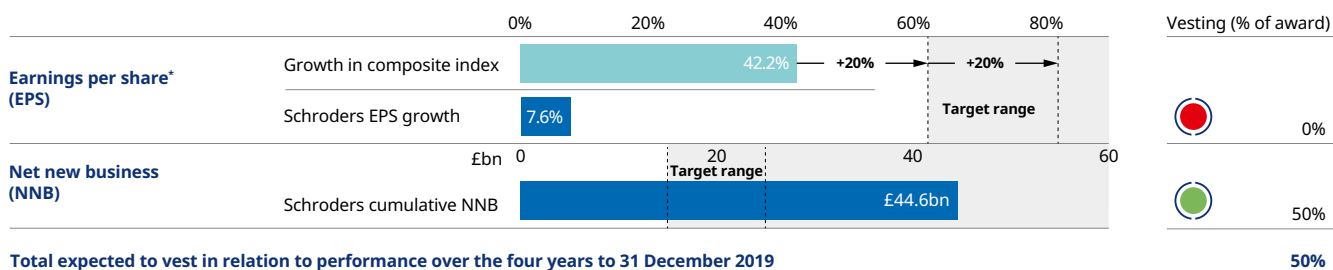
\* Before exceptional items.

 Criteria met  Partially met  Not met



### Vesting of LTIP awards granted in 2016

The LTIP performance conditions remain highly demanding and, in March 2020, we expect LTIP awards granted in 2016 to vest at 50%, based on net new business. The earnings per share target will again not be met. This vesting outcome is illustrated in the chart below.



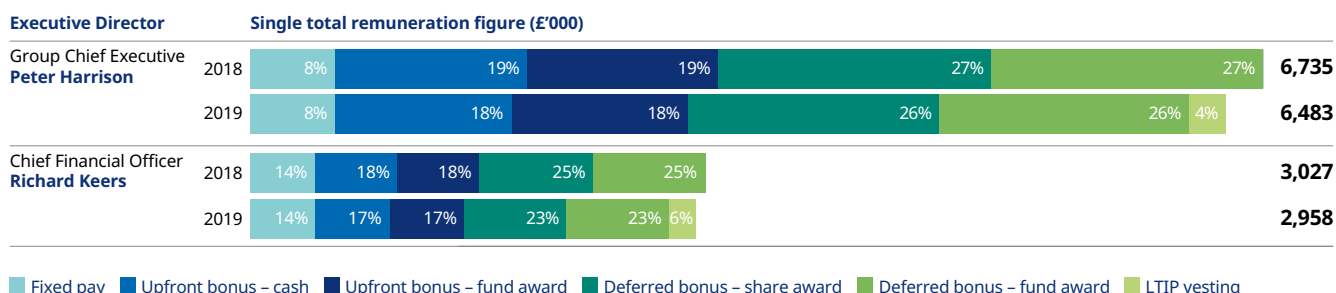
**Total expected to vest in relation to performance over the four years to 31 December 2019**

\* Before exceptional items. ● Criteria met ● Partially met ● Not met

Read more about the basis on which the Committee determined the vesting of LTIP awards granted in March 2016 on page 101.

### Executive Directors' single total remuneration figures

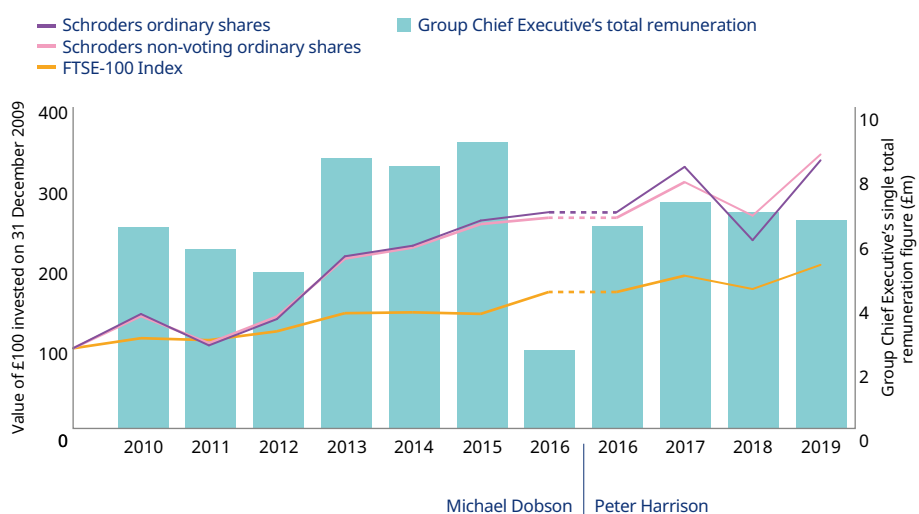
The chart below compares the single total remuneration figures for 2018 and 2019 for each executive Director.



Read more about the single total remuneration figures for the executive Directors on pages 96 to 102.

### Schroders total shareholder return vs. Group Chief Executive's total remuneration history

The graph on the right compares the total shareholder return of Schroders shares with that of the FTSE-100, of which Schroders is a long-standing constituent. Over the past 10 years, the index has returned 104%, compared with a 234% return for Schroders ordinary shares and a 242% return for Schroders non-voting ordinary shares. This graph also shows the Group Chief Executive's single total remuneration figure over the 10 years ended 31 December 2019, for comparison.

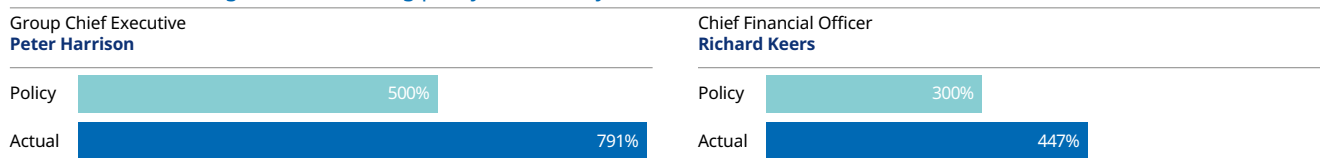


Read more about the Group Chief Executive's single total remuneration figure over the past 10 years on page 98.

## Shareholder alignment and Directors' shareholdings

Alignment with shareholders is one of the principles underpinning our Directors' remuneration policy, as outlined on page 72. The chart below compares each executive Director's shareholdings with that required under our personal shareholding policy.

### Value of shareholding vs. shareholding policy (% of salary)



 Read more about the personal shareholding policy on page 86. Read more about the Directors' shareholdings on pages 105 to 107.

## Pay outcomes in the wider workforce

The Committee reviews each year the allocation of the bonus pool between different areas of the business. The Group Chief Executive outlines the rationale for those allocations, in light of each area's relative performance and any other strategic and commercial factors. The Committee considers the distribution of year-on-year bonus outcomes for employees in each area of the firm to consider whether these are reasonable in light of the performance of each business area and of the Group as a whole, and the resulting constraints of affordability.

The Committee reviewed the distribution of bonuses and salary increases for the full workforce in January and February 2020, prior to setting the executive Directors' bonuses. The Group Chief Executive and Chief Financial Officer have seen decreases in their single total remuneration figures of 4% and 2% respectively, compared with a median total remuneration increase of 0% and a mean increase of 2% for employees who worked in the Group for all of 2018 and 2019.

The Group Chief Executive's total remuneration is 43 times the mean full-time equivalent total remuneration for UK employees of the Group and 72 times the median. This is the first year since the rules on these pay ratios were finalised and came into effect. In future years we will provide a year-on-year comparison and over time we will be able to comment on longer-term trends.

 Read more on our UK pay ratios on page 98.

## Diversity and our gender pay gap

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

This year, we have continued working to increase the representation of women in senior management roles. Having been one of the first signatories of the Women in Finance Charter in the UK, we originally set ourselves a target of 30% female representation within senior management by the end of 2019. We achieved that initial target during the first quarter of 2017 and so increased our target for the end of 2019 to 33%. At the end of 2019, female representation in senior management was 32% (2018: 32%), falling slightly short of that revised target. We are continuing to work on this. We have increased female representation on the GMC to 31%, from 7% at the end of 2016.

Our analysis of comparable roles continues to show that we reward females and males fairly for similar work but our gender pay gap reflects the lower representation of females at senior levels within the organisation. Our work to promote senior management diversity is reflected in improvements in our global gender pay gap. Since our first disclosure, in respect of 2016 pay outcomes, the gap for mean salaries and cash allowances has narrowed from 31% to 27% and the gap for the median narrowed from 33% to 27%. The gap for the mean bonus has narrowed from 66% to 58% and the gap for the median bonus has narrowed from 59% to 50%.

Diversity extends beyond gender. We have spent 2019 encouraging our people to complete their diversity profiles, to allow us to begin reporting on other measures of diversity, including ethnicity and disability, and we will continue to do so during 2020. During the year-end compensation review, we consider bonus outcomes through both a gender and an ethnicity lens to satisfy ourselves that recommendations are appropriate and help identify any unconscious bias.

Diversity and inclusion remains a priority at Schroders and we have published more information on diversity and gender pay in a separate report on our website at [schroders.com/inclusion](https://schroders.com/inclusion).

 [Read more on female representation and our gender pay gap on page 95.](#)

### Employee carried interest programmes

The Committee spent a significant amount of time during 2019 discussing our approach to sharing carried interest with our employees. Expanding further our capabilities in Private Assets is one of the three pillars of the Group's strategy for growing our business (see page 3). Arrangements to share carried interest with employees are a competitive necessity if we are to achieve this. Clients look for these arrangements to align investment team interests with their own and, with the Group retaining a share of carried interest, this also aligns the team's interests with those of the firm, and therefore our shareholders. The Committee concluded that carried interest-sharing with our employees is necessary in many areas of Private Assets capability, though not all, for us to attract, retain and motivate the talent we need to succeed in these endeavours.

During 2019, we put in place a number of arrangements to share any carried interest that the Group earns on particular investment vehicles with employees. We have also agreed key principles for how we will do this in the future and a framework for what this might look like in practice. Our approach to allocating carried interest entitlements will focus on individuals' contribution to the investment vehicle, and employee co-investment will be encouraged. The vesting period for these entitlements will be aligned to the lifecycle of the fund in question.

The executive Directors are not eligible to participate in any of our arrangements to share carried interest with employees.

### Changes to the Remuneration Committee terms of reference

During 2019, the Board reviewed the Committee's terms of reference and made minor changes to bring closer alignment with the revised UK Corporate Governance Code. In particular, the role and remit of the Committee was clarified, to make explicit the Committee's responsibility to set the level and structure of remuneration for senior executives other than the executive Directors, and broadened, so the Committee (rather than the Board as a whole) is responsible for determining the remuneration of the Group Chairman. The Committee's role overseeing any arrangements to share carried interest with employees was also reflected. More detail on the remit and activities of the Committee can be found on page 80.

### Sir Damon Buffini

Chairman of the Remuneration Committee

4 March 2020

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

The Committee's terms of reference are available on our website at [schroders.com/ir](https://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 pages 52 and 53.

## Internal advisers

At the invitation of the Committee Chairman, the Group Chairman attended nine Committee meetings during 2019 and the Group Chief Executive and Chief Financial Officer each attended six meetings.

The Group Head of Risk, the General Counsel, the Global Head of Compliance and the Group Head of Internal Audit advised the Committee on matters that could influence remuneration decisions and were available to attend meetings if required. The Global Head of Private Assets attended two meetings and Deloitte LLP attended one meeting to advise the Committee on employee carried interest-sharing arrangements. PricewaterhouseCoopers LLP (PwC) attended seven meetings as independent Remuneration Committee advisers. The Global Head of Human Resources and the Head of Compensation and Benefits attended meetings to provide advice and support to the Committee.

No Director or employee participates in decisions determining his or her own remuneration.

## Key areas of focus during the year

The table below summarises the key issues that the Committee considered at each of its meetings during 2019. Remuneration packages for new hires, severance arrangements for roles subject to the Committee's oversight and regulatory developments were reviewed at each meeting as required.

Meeting date	Key issues considered	
February	<ul style="list-style-type: none"> <li>– Compensation outcomes for 2018</li> <li>– Conduct matters</li> <li>– Remuneration disclosures</li> <li>– Forecast vesting of 2015 LTIP grants</li> </ul>	<ul style="list-style-type: none"> <li>– Performance conditions for 2019 LTIP grants</li> <li>– Carried interest-sharing arrangements in particular business areas</li> </ul>
May	<ul style="list-style-type: none"> <li>– Shareholder and voting agency feedback on remuneration</li> <li>– Potential implications of the fifth iteration of the Capital Requirements Directive and of the Investment Firms Directive</li> <li>– Carried interest-sharing arrangements in particular business areas</li> </ul>	<ul style="list-style-type: none"> <li>– Alignment of remuneration to shareholder and client interests</li> <li>– Remuneration arrangements in Benchmark Capital</li> <li>– Review of the Committee's terms of reference</li> <li>– Review of advisers to the Committee</li> </ul>
June / July	– Executive Directors' remuneration policy (five meetings)	
June Board meeting	– Executive Directors' remuneration policy	
July Board meeting	– Executive Directors' remuneration policy	
October	<ul style="list-style-type: none"> <li>– Executive Directors' remuneration policy</li> <li>– Compensation review 2019</li> <li>– Carried interest-sharing framework</li> <li>– Approval of deferred remuneration grants for sustained high performance and potential</li> </ul>	<ul style="list-style-type: none"> <li>– Gender pay gap</li> <li>– Remuneration arrangements in particular business areas</li> <li>– Material risk taker framework and population</li> <li>– Internal audit of remuneration compliance</li> </ul>
December	<ul style="list-style-type: none"> <li>– Executive Directors' remuneration policy</li> <li>– Carried interest-sharing framework</li> <li>– Compensation review 2019</li> <li>– Sustainability of earnings</li> <li>– Risk, legal, compliance, internal audit and conduct matters</li> <li>– Remuneration disclosures</li> </ul>	<ul style="list-style-type: none"> <li>– Forecast vesting of 2016 LTIP grants</li> <li>– Remuneration arrangements in particular business areas</li> <li>– Remuneration benchmarking</li> <li>– Risk adjustment framework for remuneration</li> <li>– Total compensation ratio target for 2020</li> </ul>



## External advisers

The Committee appointed or received advice on executive Director pay during 2019 from the external advisers shown in the table below. Advisers were selected on the recommendation of the Global Head of Human Resources and the Head of Compensation and Benefits.

	Appointed by	Services provided to the Committee	Other services provided to the Group	Fees paid for advice to the Committee during 2019 on executive Director pay (£'000)
<b>PwC</b>	The Committee	Independent advisers to the Committee, including advice on the development of the proposed remuneration policy for the executive Directors	HR consulting services and advice to management on remuneration design, regulatory implications, tax, social security, governance, operational and technical issues	226
<b>McLagan (Aon) Limited (McLagan)</b>	The Committee	Information on competitive rates of pay and market conditions	Information on competitive rates of pay and market conditions	2

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

The Committee retained PwC to provide independent advice as their team are among the market leaders in this area, with a good understanding of the firm through their other consulting work with Schroders. A fixed fee structure has operated since appointment to cover standard services, with any additional items charged on a time/cost basis. PwC also provides professional services in the ordinary course of business, including tax, consulting, regulatory compliance, support for corporate acquisitions and other advice to the Group. PwC was the Group's statutory auditor until 2018.

The Committee utilised McLagan data on market conditions and competitive rates of pay, as McLagan provides remuneration benchmarking data covering a wide cross section of the Group's competitors, including firms that are not publicly listed and so are not required to publish their directors' remuneration.

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

Neither PwC nor McLagan has a connection to the Company or any individual director, save as outlined above.

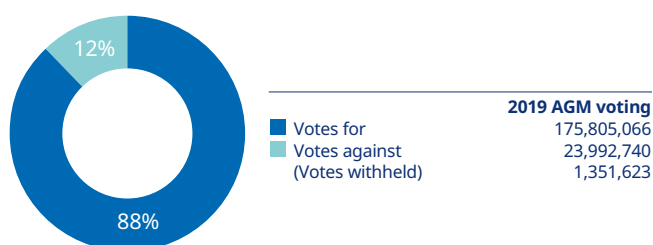
## Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process (see page 60) and Independent Board Evaluation attended one meeting as part of this. The findings relating to the Committee were discussed first with the Committee Chairman and then with the Committee as a whole. The overall view was that the Committee had operated effectively and had discharged its duties diligently.

## Shareholder voting on remuneration

At the 2019 AGM, shareholders approved the remuneration report that was published in the 2018 Annual Report and Accounts. Shareholders approved the current Directors' remuneration policy at the 2017 AGM and that policy applies for three years from the date of approval. The results of these votes are shown below, together with the result of previous shareholder votes on remuneration resolutions since 2014.

### To approve the remuneration report at the 2019 AGM



To approve the relevant remuneration report	Votes for	Votes against
2014 AGM	94%	6%
2015 AGM	97%	3%
2016 AGM	96%	4%
2017 AGM	95%	5%
2018 AGM	96%	4%
<b>2019 AGM</b>	<b>88%</b>	<b>12%</b>

### To approve the Directors' remuneration policy at the 2017 AGM



To approve the relevant Directors' remuneration policy	Votes for	Votes against
2014 AGM	92%	8%
<b>2017 AGM</b>	<b>94%</b>	<b>6%</b>

# Directors' remuneration policy

The new Directors' remuneration policy proposed by the Committee and the Board is set out on pages 82 to 92. Shareholders will be asked to approve the new policy at the 2020 AGM on 30 April 2020. This policy will take effect for Directors from the date it is approved and is expected to apply for three years. The Company is also seeking shareholder approval for new DAP and LTIP rules at the 2020 AGM, which will be used for awards following that approval, and the policy therefore sets out the position assuming these new plans are approved.

## Remuneration policy for employees including the executive Directors

The table below sets out the policy for each component of remuneration for the executive Directors, subject to approval at the 2020 AGM. The current approach for other employees is also included to set the remuneration policy for executive Directors in the context of the wider workforce. The remuneration policy for non-executive Directors is set out on page 90.

Component, purpose and link to strategy		Current approach for the wider workforce	Policy for the executive Directors
Fixed pay	<b>Base salary</b> To help recruit, reward and retain talent of the calibre and experience required to develop and deliver the Group's strategy. Reflects a market competitive rate of pay taking account of the employee's role and responsibilities, skills and experience, and ongoing contribution.	Base salary is paid in cash via payroll. We review base salaries annually. The Group actively targets its spend on salary increases at lower-paid employees, for whom fixed pay forms a larger proportion of total remuneration, and at employees whose roles and responsibilities have increased significantly during the year or where salary is below market rates. The financial situation of the Group and the performance of the individual are taken into account when determining the appropriate level of base salary increase each year, if any. For higher-paid employees we adjust base salaries infrequently.	We aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared to other listed financial services firms and FTSE-100 companies. Like other higher-paid employees, the executive Directors' base salaries are adjusted infrequently. When salaries for executive Directors are increased, the percentage increase will not normally exceed the average annualised increase across the wider workforce. Larger increases may be awarded when Directors' salaries have fallen significantly below international competitors.
	<b>Benefits and allowances</b> To help recruit, reward and retain talent. Supports employee health and wellbeing and reflects local market practice.	Employee benefits vary between jurisdictions, reflecting local market requirements. Cash allowances are sometimes paid, typically after a benefit has been phased out and cash in lieu offered in exchange.  UK employees are provided with a range of benefits. Available benefits include private healthcare, life assurance, personal accident insurance, sickness insurance and tax-efficient charitable donations that are matched by the Group. No performance conditions apply.	Executive Directors receive flexible access to a range of benefits in kind on the same basis as other London-based employees, which are relatively low by UK standards for executive Directors. Directors are covered by the Group's Directors' and Officers' Liability Insurance. Executive Directors may also benefit from private use of a car and driver. The cost of providing benefits varies according to a range of factors, such as insurance premium rates, so no formal maximum exists. Additional benefits may be provided if required, for example to support international relocation.
	<b>Share Incentive Plan (SIP)</b> To help increase the number of employee shareholders and increase their participation as shareholders. Provides potential UK tax benefits.	Most UK employees are eligible to participate in the SIP. Participating employees use their own funds to acquire Schroders shares (partnership shares). In return they receive matching awards of shares from Schroders (matching shares), currently up to £100 per month based on the market value of the shares, and awards of shares equivalent to dividends (dividend shares). To qualify for maximum tax benefits these shares must normally be left in the SIP for five years. Participants are free to withdraw their partnership shares at any time but currently may forfeit the corresponding matching shares if they do so (or if they cease to be in employment) within one year of acquiring the relevant partnership shares, except in certain circumstances as set out in the rules of the SIP.	Executive Directors are eligible to participate in the SIP on the same basis as other London-based employees. The value of any SIP matching shares awarded to the executive Directors during the year is included within the value reported for benefits and allowances.  SIP participation for the executive Directors is subject to the same statutory maximum limits as for other eligible employees, currently £1,800 per tax year in partnership shares (or 10% of income if lower) and a maximum ratio of 2:1 for matching shares.
	<b>Retirement benefits</b> To help recruit, reward and retain talent. Enables and encourages provision for retirement and reflects local market practice.	Retirement benefits vary between jurisdictions in a similar way to benefits and allowances. Base salary is generally the only pensionable element of remuneration. No performance conditions apply.  In the UK, base salary up to a maximum of £250,000 is pensionable. In some circumstances, employees may take as cash some or all of the amount the Group would otherwise contribute to the pension plan.	Executive Directors may participate in pension arrangements, or receive cash in lieu, on the same basis as other London-based employees. The Group's contributions are currently 16% of pensionable salary plus a contribution to match employee contributions up to a further 2%. Employees have 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 Group would otherwise contribute to the pension plan.

Component, purpose and link to strategy	Current approach for the wider workforce	Policy for the executive Directors
<p><b>Maximum total remuneration</b></p> <p>To provide shareholders with clarity on the maximum total remuneration that each executive Director might be awarded each year.</p>	<p>Total remuneration for employees other than the executive Directors is not subject to a defined maximum limit.</p>	<p>The Committee has defined a maximum limit for the total remuneration of each executive Director each year, based on the aggregate value of: fixed remuneration paid in the year; annual bonus awarded in respect of the year; and the grant-date market value of shares under the LTIP award granted following the financial year end. This will not exceed £9 million for the current Group Chief Executive and £4.5 million for the current Chief Financial Officer.</p>
<p><b>Annual bonus award</b></p> <p>To motivate employees to achieve financial, non-financial and personal objectives for the financial year, which are consistent with the Group's strategy. Helps reward talent for their individual contribution. For executive Directors, awards reflect annual performance along with performance over a longer time frame for some metrics.</p> <p><b>Variable pay – annual bonus award</b></p>	<p>Permanent employees are eligible to be considered for an annual bonus award. Awards in respect of each financial year are fully discretionary and non-pensionable. The Group's total spend on remuneration is managed via the total compensation ratio. Individual awards are not capped.</p> <p>The amount, if any, that eligible employees are awarded is determined based on a number of financial and non-financial factors that may vary from year to year to ensure alignment with the Group's strategic goals, including individual performance objectives and an assessment of behaviours compared to the Schroders values.</p> <p>Bonuses are delivered as follows:</p> <ul style="list-style-type: none"> <li>Any annual bonus award worth up to £52,000 will normally be payable in cash.</li> <li>For most employees, larger annual bonus awards are subject to a graduated level of deferral, up to 50%. The upfront portion (i.e. that part that is not deferred) is paid in cash in February following the end of the financial year and the deferred portion is granted as a combination of share and fund awards, as described on the following page.</li> <li>For employees who are material risk takers under the UCITS Directive or AIFMD (UCITS/AIF MRTs), including members of the GMC, larger annual bonus awards are subject to 40% to 60% deferral. Of the upfront portion, 50% is paid in cash in February following the end of the financial year and the other 50% granted as an upfront fund award. The deferred portion is granted as a combination of share and fund awards.</li> </ul> <p> Read more about share awards and fund awards on the following page. Malus and clawback terms apply to the non-cash portions of annual bonus awards for all employees (see pages 86 and 87).</p>	<p>Annual bonus awards for the executive Directors operate in the same way as for other employees who are UCITS/AIF MRTs except that for the executive Directors:</p> <ul style="list-style-type: none"> <li>the proportion of bonus that is deferred is initially fixed at 60%</li> <li>the amount of the bonus that is deferred is reduced to reflect any LTIP award, such that at a minimum 60% of overall variable pay is deferred</li> <li>the deferred portion of bonus is granted 75% as share awards and 25% as fund awards.</li> </ul> <p>The aggregate value of fixed remuneration paid in the year, annual bonus awarded in respect of the year and the grant-date market value of LTIP shares granted following the year end will not exceed £9 million for the current Group Chief Executive and £4.5 million for the current Chief Financial Officer.</p> <p>In setting executive Directors' bonuses, the Committee operates an annual bonus scorecard. At the beginning of each performance year, the Committee agrees the scorecard metrics and a range of targets for each metric, taking into account the recommendations of the Group Chairman and Group Chief Executive, the Board-approved budget, market expectations, prior-year financial outcomes, strategic priorities and the wider economic landscape. There are no prescribed metrics or weightings but financial performance factors will make up at least 70% of the scorecard each year. The remainder, no more than 30% of the scorecard, will be based on a combination of non-financial factors, such as strategic progress, sustainability, people and talent, risk and conduct and each executive Director's individual objectives for the year. For threshold performance, 25% of the maximum opportunity is payable.</p> <p>The metrics, targets and actual performance will be disclosed retrospectively in the next available Annual report on remuneration, together with commentary for strategic and individual measures, as these are commercially sensitive. The Committee may apply discretion to adjust annual bonus awards to the extent it judges that the outcomes of the annual bonus scorecard do not align with results achieved, or in light of unexpected or unforeseen circumstances. Any such adjustment would be disclosed in the relevant Remuneration report.</p> <p>Malus and clawback terms apply to the executive Directors' annual bonus awards on the same basis as for other employees. In addition, executive Directors' service contracts extend clawback to the upfront cash portion of any annual bonus awards in the event of individual misconduct (see pages 86 and 87).</p>

Component, purpose and link to strategy

Current approach for the wider workforce and policy for the executive Directors

Deferred Award Plan (DAP)

The Group's main deferral arrangement for annual bonus awards, including for the executive Directors. Aligns the interests of employees with those of shareholders and clients, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders. May be used to compensate new recruits who forfeit remuneration from their previous employer to join Schroders. Awards are subject to the DAP rules, which will be put to shareholders for approval at the 2020 AGM.

Variable pay – DAP awards

Awards relate to past performance and so no further performance conditions apply. Share awards are conditional rights to acquire shares in the Company, at nil cost. Additional shares equivalent to dividends paid accrue on a compound basis until the share award is exercised. Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds.

An upfront fund award cannot be exercised for six months from the date of grant. It is not normally subject to forfeiture if the holder leaves the Group. The deferred portion of annual bonus awards is generally delivered as a combination of share awards and fund awards; in recent years we have generally granted deferrals equally between share and fund awards, subject to a minimum fund award of £10,000.

Both upfront and deferred DAP awards are subject to malus terms from the date of grant to the date of settlement and clawback terms for 12 months from the date of settlement (see pages 86 and 87). Unvested awards are normally forfeited if the award-holder leaves the Group (see page 92).

Deferred bonus awards for UCITS/AIF MRTs, including the executive Directors

We grant DAP awards to the executive Directors on a similar basis as to other UCITS/AIF MRTs, save that the executive Directors' deferred bonuses are granted 75% as share awards and 25% as fund awards.

To provide an incentive to stay at Schroders, deferred share awards normally require the MRT to be employed continuously by the Group until three years from grant to vest in full. These awards normally vest and are available to exercise in three equal instalments after 1, 2 and 3 years from grant. If an MRT resigns prior to the final vesting date then they normally forfeit part of these awards, as follows:

Years since grant date:	Less than 1	1 to 2	2 to 3
% forfeited for share awards	100%	66.7%	33.3%

For deferred fund awards, the deferral period is 3.5 years rather than three. These awards normally vest and are available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from grant. If an MRT resigns prior to the final vesting date then the normal forfeiture terms are as follows:

Years since grant date:	Less than 1.5	1.5 to 2.5	2.5 to 3.5
% forfeited for fund awards	100%	66.7%	33.3%

Deferred bonus awards for employees who are not UCITS/AIF MRTs

These operate on similar terms to those outlined above, save that if a participant resigns before the third anniversary of grant, awards are normally subject to forfeiture as follows:

Years since grant date:	Less than 1	1 to 2	2 to 3
% forfeited for both share and fund awards	100%	66.7%	33.3%

Awards for sustained high performance and potential

Deferred awards with a five-year vesting period are used very selectively each year to reward sustained high performance and potential. Executive Directors are not eligible to receive awards on these terms. These awards normally require the participant to be employed continuously by the Group until the fifth anniversary of grant. If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full. There are no further performance conditions.

Awards for new recruits who forfeit remuneration from their previous employer to join Schroders

When DAP awards are used in this way as part of recruitment, the Committee can set a different vesting period to better align with the awards that the recruit is forfeiting.



Component, purpose and link to strategy	Current approach for the wider workforce and policy for the executive Directors
<p><b>Long Term Incentive Plan (LTIP)</b></p> <p>To incentivise executive Directors to deliver long-term performance and the achievement of strategic priorities, while maximising alignment with shareholder interests. May also be used to compensate new recruits who forfeit remuneration from their previous employer to join Schroders. Awards are subject to the new LTIP rules, which will be put to shareholders for approval at the 2020 AGM.</p> <p>Variable pay – LTIP award</p>	<p>Employees other than the executive Directors are not eligible to receive LTIP awards currently.</p> <p>Executive Directors typically receive an LTIP award in March each year. LTIP awards are conditional rights to acquire shares in the Company at nil cost. Annual LTIP awards can be up to four times base salary for any individual. The aggregate value of fixed remuneration paid in the year, annual bonus awarded in respect of the year and the grant-date market value of LTIP shares granted following the year-end will not exceed £9 million for the current Group Chief Executive and £4.5 million for the current Chief Financial Officer.</p> <p>LTIP awards normally have a four-year performance period. The Committee determines the performance conditions for each award and uses its judgement to set challenging criteria that are consistent with the Group's strategy, at least half of which will be financially based. Since the current LTIP was approved by shareholders in 2010, the vesting of awards has been subject to performance conditions based on earnings per share (EPS) growth, in respect of 50% of each award, and net new business (NNB), in respect of the other 50%.</p> <ul style="list-style-type: none"> <li>– EPS growth was chosen as a measure of profitability and is measured relative to a composite index that the Committee believes to be a reasonable proxy for the market movement of Schroders' AUM. As a result, earnings increases or decreases purely as a result of movements in financial markets are excluded from the measurement of performance. Each year that this EPS performance condition has been used, the balance of Schroders' AUM at the previous year end has been reviewed to determine the weighting of the underlying indices that make up the composite index for new awards. If the growth of adjusted EPS in the fourth year compared with that in the year prior to grant exceeds the growth in the composite index over the same period by 20% then 12.5% of the award vests, rising on a straight-line basis to 50% of the award vesting for comparative growth of 40% or more. Comparative growth of 20% or less is not rewarded. Targets were set at 20% to 40% as a range of outperformance of the composite index that is very stretching.</li> <li>– NNB, being gross sales less gross redemptions, was chosen as a measure of the Group's organic growth. If cumulative NNB over the four-year performance period is £15 billion then 12.5% of the award vests, rising on a straight-line basis to 50% vesting for NNB of £25 billion or more. NNB of less than £15 billion is not rewarded. Targets were set by reference to historical actual performance, aiming to provide targets that are stretching but not unrealistic.</li> </ul> <p>Following the end of the performance period, the Committee will determine the extent to which the performance conditions have been met and the proportion of awards that will therefore vest. To avoid overly formulaic outcomes, when determining vesting the Committee has discretion to reduce (including to nil) the extent to which awards vest. This discretion applies if any member of the Group has suffered a material failure of risk management or if the Committee judges that the unadjusted outcome from the performance conditions does not reflect underlying performance of the Group, any member of the Group, any business unit or the participant.</p> <p>From when they vest, awards are subject to a 12-month holding period, during which they cannot be exercised. They may then be exercised within 12 months of the end of the holding period. Malus and clawback terms apply (see pages 86 and 87). Unvested awards are normally forfeited if the LTIP participant leaves the Group (see page 92).</p> <p>The Committee may amend the performance conditions applicable to an LTIP award if an event occurs that causes it to consider that it is appropriate to do so, provided that the amended performance condition is, in the opinion of the Committee, no more or less difficult to satisfy than it was originally intended to be.</p> <p><b>Awards for new recruits who forfeit remuneration from their previous employer to join Schroders</b></p> <p>The plan rules allow LTIP awards to be used as part of recruitment, including for employees other than the executive Directors, in which case the Committee can set a different vesting period and performance conditions to better align with the awards that the recruit is forfeiting. In practice this facility is not expected to be used often.</p>

Component, purpose and link to strategy	Current approach for the wider workforce	Policy for the executive Directors
<b>Personal shareholding policy</b>  To align the interests of senior management with those of shareholders.	Members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary. Each GMC member undertakes not to sell or transfer any Schroders shares until their share ownership target has been reached and to ensure that the required shareholding is maintained when selling or transferring shares, except that shares may be sold to satisfy tax and social security liabilities arising when an award vests or is exercised. For these purposes, rights to shares includes the estimated after-tax value of vested and unvested DAP share awards (and those under the Group's previous incentive plans) and vested LTIP awards, including those subject to a holding period, but does not include any unvested LTIP awards as these remain subject to performance conditions. The Group prohibits the hedging of share awards during their deferral and/or holding periods, save in respect of currency risk.	The personal shareholding policy for the Group Chief Executive requires the acquisition and retention of shares or rights to shares equivalent to 500% of base salary. For the other executive Directors the requirement is 300% of base salary.  On stepping down as an executive Director, the shareholding required while an executive Director, or the actual level of shareholding on stepping down if lower, must be maintained for two years.
<b>Shareholder dilution</b>	Incentive plans involving Schroders shares are non-dilutive to shareholders as shares to satisfy awards are purchased in the market.	

In approving the application of this policy to the executive Directors, authority is given for the Group to honour any commitments entered into with current or former Directors prior to the approval and implementation of the policy (such as payment of pension or the grandfathering of past awards), provided that such commitments complied with any applicable remuneration policy in effect at the time they were entered into. Any remuneration commitment made prior to an individual becoming a Director and not in anticipation of their appointment to the Board may be honoured, even where it is not consistent with the Directors' remuneration policy in place at the time it is fulfilled. For these purposes, commitments include the satisfaction of past awards of variable remuneration, the terms of which are set at the time the award is granted.

The rules of the DAP and the LTIP are being submitted to shareholders for approval at the 2020 AGM. There are various discretions afforded to the Committee in these incentive plans, such as the treatment of leavers (see page 92), the discretion to override formulaic LTIP outcomes (see page 85), discretion to adjust the structure of awards in the event a participant is internationally mobile to avoid unfavourable legal, regulatory or tax outcomes for participants or the Group, or in the event of a variation of the Company's share capital or other corporate event. At the Committee's discretion, share-based awards may be settled in cash but this would only be used in exceptional circumstances, for instance in a jurisdiction where settlement in shares would create an adverse outcome for the Group or award holder. The terms of awards may be amended in accordance with the relevant plan rules, for example to take account of legal, tax and regulatory changes. The general application of each plan is subject to variation in some jurisdictions to reflect local restrictions, regulation and practice.

### Malus and clawback policy

The Group malus and clawback policy allows incentive awards to be risk-adjusted in certain circumstances. Under malus terms, awards granted under the DAP and LTIP may be delayed, reduced or cancelled, at the Committee's discretion, during the period from grant to settlement. Under clawback terms, amounts paid or values released from such awards may be recovered for a period of 12 months from the date of settlement, or longer if an investigation is underway that could lead to clawback, at the Committee's discretion. The policy sets out a range of circumstances in which these terms can be used, including (in the opinion of the Committee):

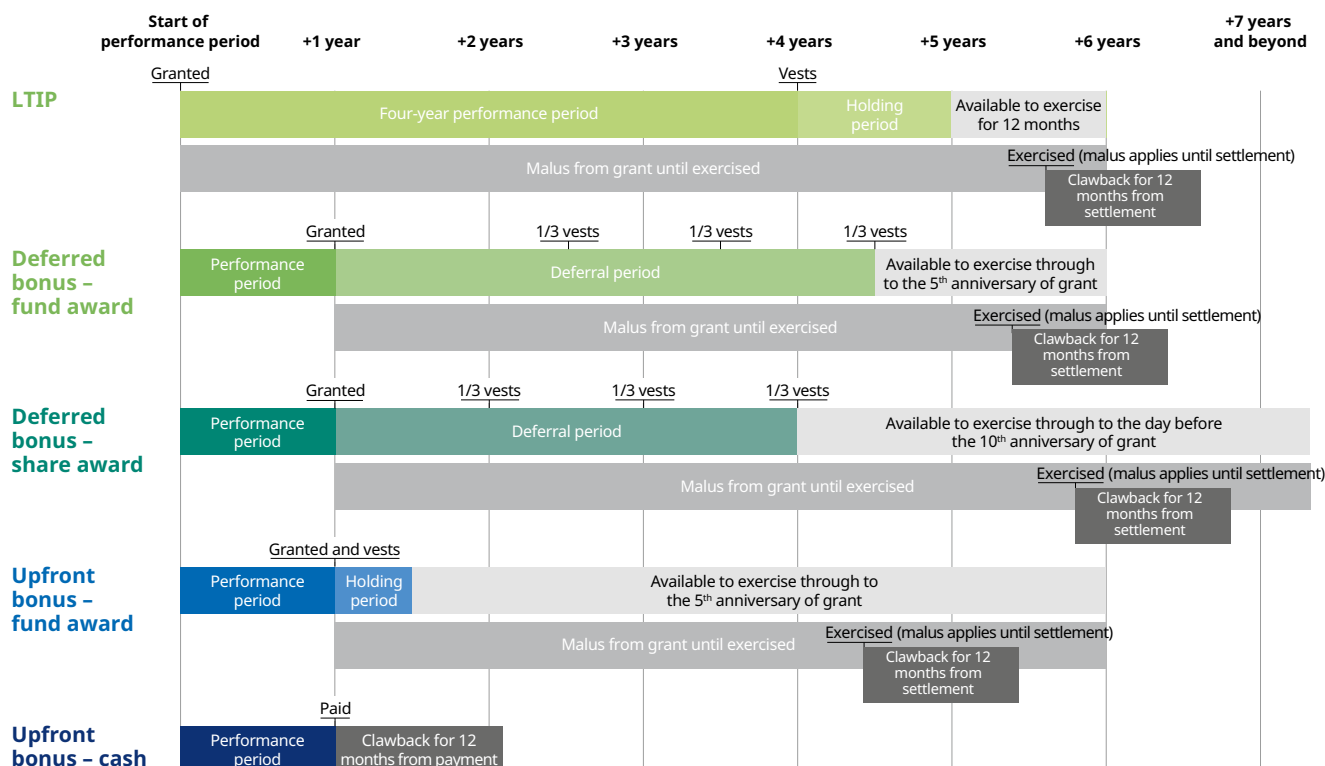
- Fraud, misconduct or misbehaviour by the participant
- Serious error by the participant as a result of the participant's negligent conduct or omission
- A significant failure of risk management for which the participant has significant responsibility
- Corporate failure or a significant downturn in financial performance to which the participant's negligent conduct has significantly contributed
- A material financial misstatement for which the participant has significant responsibility or which has led to a greater portion of an award being released to the participant than would otherwise have been the case
- Vesting or settlement based on erroneous or misleading data
- A regulatory sanction or serious reputational damage to which the conduct or omission of the participant significantly contributed.

The Committee reviews the malus and clawback policy from time to time, with the aim that the potential triggers outlined within it reflect the circumstances in which it might be appropriate for malus or clawback terms to be applied.

In addition, executive Directors' service contracts extend clawback terms to the upfront cash portion of any annual bonus awards in the event of individual misconduct.

### Illustration of the period over which malus and clawback apply

The diagram below illustrates the period over which malus and clawback apply. For awards under the LTIP, and for each portion of awards under the DAP, malus terms apply until the award is exercised and settled, and then clawback terms apply for 12 months from settlement. The diagram shows the period that malus applies, and then illustrates what the clawback period would be if the award is exercised and settled at the point indicated, from which point malus terms would cease to apply and the clawback period would commence.



### Considerations when setting policy and the Committee's decision-making process

In recommending the Directors' remuneration policy to the Board and to shareholders, the Committee aims to ensure that policies and practices are consistent with the principles outlined on page 72, while supporting effective risk management so as not to encourage excessive or inappropriate risk-taking. The Group's remuneration policies and practices take account of legislation, regulation, corporate governance standards, best practice and guidance issued by regulators, shareholders and shareholder representative bodies. Reward policies comply with the relevant provisions of the FCA's Remuneration Codes, the Remuneration Part of the PRA Rulebook and the UK Corporate Governance Code.

The responsibilities of the Committee are set out in its terms of reference and summarised on page 80. To avoid conflicts of interest, no Director or employee participates in decisions determining their own remuneration. The Committee assesses the performance of its external advisers annually, to ensure that the advice provided is independent of any support provided to management (see page 81). In determining the remuneration of the General Counsel and Global Head of Human Resources, and reviewing the remuneration of the Heads of Compliance, Risk and Internal Audit, the Committee looks to ensure that remuneration is appropriate based on the achievement of objectives linked to their functions and that any conflicts of interest are identified and managed.

During 2018, the Committee and the Board carried out a detailed review of our remuneration philosophy for the executive Directors and concluded that the fundamental principles that underpin the policy remain appropriate.

The Committee considered the proposed new Directors' remuneration policy at length during 2019, including holding a number of additional meetings. Several of those Committee discussions took place without the Group Chief Executive and Chief Financial Officer being present. The Board as a whole also discussed the policy on more than one occasion. The Committee identified a number of strengths of the current approach, such as its relative simplicity and helping keep the fixed cost base of the Group relatively low. In other areas the Committee identified changes, to address shareholder concerns, to further align to developing corporate governance best practice and to further improve the policy's effectiveness and alignment to Schroders' long-term business strategy.

Shareholder views and feedback have been central as the Committee considered the new Directors' remuneration policy. Strong shareholder support for the current policy was seen at the 2017 AGM, with 94% of votes cast in favour of its approval, and in the 96% support for the remuneration report at the 2018 AGM. Shareholder support for the 2018 remuneration report fell to 88%, which was still strongly supportive but suggested an increase in shareholder concern. In response, the Committee Chairman and Senior Independent Director actively consulted with the Group's largest shareholders and proxy voting agencies, to better understand their views and any concerns that each may have.

The table on the following page summarises concerns raised by a minority of shareholders during 2019 and the Committee's conclusions and proposed policy responses as a result.

Shareholder comments	Committee's considerations during 2019
<b>2018 bonus outcomes considered not to reflect the Company's performance.</b>	To provide shareholders with greater transparency around annual bonus decision-making for the executive Directors, the Committee is adopting a scorecard approach to determining their annual bonus awards, with effect from performance year 2020. More details of the policy for determining annual bonus awards are set out on page 83. Information on the annual bonus scorecard for performance year 2020 is set out on page 108.
<b>Total remuneration for the executive Directors is considered to be too high.</b>	The Group aims to pay employees, including the executive Directors, competitive levels of total remuneration, which are reviewed annually and benchmarked by reference to the external market. Schroders must attract, retain and motivate the calibre of individual required to run a business whose main competitors do not operate in the same UK-listed environment or are privately owned. Levels of pay are driven by the performance of the Group and of each Director. Benchmarking is used to establish a frame of reference for what competitors are paying, rather than as a starting point or primary factor when remuneration decisions are made. Information on the competitive positioning of executive Directors' remuneration is provided on page 97.
<b>The remuneration of each executive Director should be subject to an individual maximum.</b>	In response to shareholder concerns with uncapped remuneration, the Committee proposes to introduce a maximum total remuneration level for each executive Director. This will be expressed as a maximum total remuneration value, rather than a maximum bonus or a percentage of salary, defined separately for each executive Director. The maximum total remuneration for the current Group Chief Executive will be £9 million, broadly in line with the historic highest pay for this role, and the maximum for the current Chief Financial Officer will be £4.5 million.
<b>Remuneration is too short-term and does not create sufficient shareholder alignment. LTIP awards should make up more of total remuneration.</b>	The proportion of any annual bonus awards for executive Directors that is deferred is approximately 60%. In addition, half of the upfront portion (that part which is not deferred) is granted as an upfront fund award that cannot be exercised for six months, creating further alignment with clients. To create additional shareholder alignment, the deferred portion of the executive Directors' annual bonus awards will be delivered 75% as share awards and 25% as fund awards, compared to 50/50 in the current policy. The Committee believes that the LTIP continues to be useful, alongside significant deferral of annual bonus awards into share and fund awards. The LTIP incentivises long-term performance and the achievement of strategic priorities but also creates challenges in setting meaningful longer-term targets that are aligned with the interests of shareholders and clients and remain so as economic and business cycles evolve.
<b>The LTIP performance metrics are too complex.</b>	The Committee recognises that the composite index used for EPS performance measurement is complex but considers that the benefits, in excluding earnings increases or decreases purely as a result of movements in financial markets, justify the continuation of this approach.

#### Wider workforce engagement

The Committee debates and discusses key areas of remuneration policy and pay outcomes for the wider workforce throughout the year, the annual bonus pool and resulting pay outcomes for employees across the Group, the budget for salary increases, gender and ethnicity pay outcomes, gender pay gap reporting and any changes to the structure of workforce compensation. As far as possible, the remuneration policy for executive Directors is consistent with that applied for other employees, as shown in the tables on pages 82 to 86. The Committee does not set fixed ratios for Directors' pay relative to other employees as it believes this would restrict flexibility in aligning reward and performance appropriately, and to reflect the competitive market rates for each role across the Group. While employees are not expressly consulted on Directors' remuneration, feedback from employees is gathered by management and the Board in a range of ways through the year, including:

##### Employee forums

Elected employee representatives have regular direct access to senior management to discuss the topics and issues that they and the employees they represent consider are important. The Senior Independent Director chairs meetings of the Global Employee Forum to hear directly from employees on the issues that concern them and report these back as appropriate to the Committee, of which he is a member, and the Board.

##### Employee opinion survey

The outcomes of the employee opinion survey are reviewed by the GMC and the Board and taken into account when setting remuneration policy if appropriate. Each GMC member creates an action plan designed to proactively respond to employees' feedback and continually improve engagement in their respective functions. The Group Chief Executive ensures that the delivery of those plans is a priority.

##### Town hall meetings

The Group Chief Executive and other senior management hold town hall meetings regularly. Some focus on the Group's strategic progress and performance, some on particular issues such as diversity and inclusion, and others on issues specific to a particular area of the business or team. The format of these meetings varies. Some are broadcast to employees across the globe via the intranet. Employees are given opportunities to ask questions, anonymously where possible, to help provide insight into areas of concern.

##### Overview of pay and policy decisions

The Remuneration Committee's remit includes oversight of remuneration strategy and remuneration policies across the Group. The Committee reviews the remuneration outcomes for the wider workforce, and other significant remuneration-related matters. The Committee considers a broad range of reference points when setting policy and pay levels, including external market benchmarks as well as internal reference points.

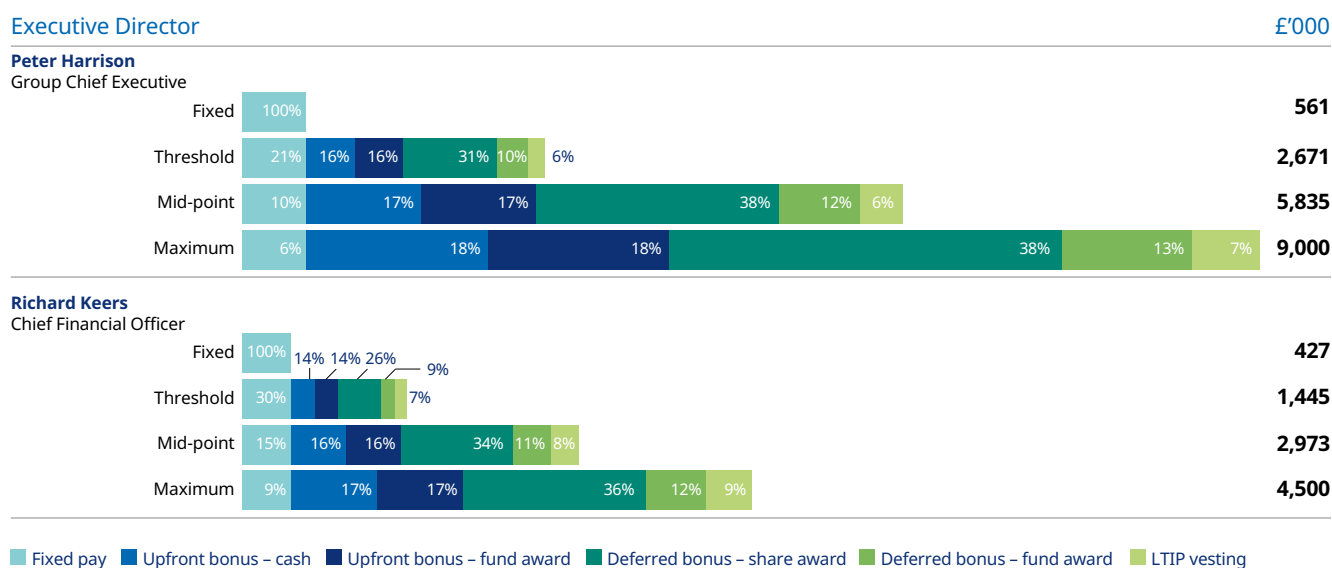


## Executive Directors' remuneration policy illustration

The diagram on page 74 illustrates the structure of the executive Directors' remuneration, including the timing of when they receive each component of their total remuneration, across the following:

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

The potential value of each component of remuneration for the executive Directors is illustrated below. These scenario charts show, for each of the executive Directors, the relative split of fixed components of remuneration, annual bonus awards and LTIP awards, in accordance with the proposed new Directors' remuneration policy.



The remuneration policy illustrations above are based on the proposed new remuneration policy for the executive Directors, as follows:

	Fixed pay	Fixed pay consists of base salary, benefits and allowances and retirement benefits. Base salary is the annual salary effective from 1 March 2020. Benefits and allowances and retirement benefits are the actual amounts received in respect of 2019, as shown in the single total remuneration figure table on page 96.				
		£'000	Base salary	Benefits and allowances	Retirement benefits	Total fixed pay
		Peter Harrison	500	16	45	561
		Richard Keers	375	7	45	427

	Threshold	Mid-point	Maximum
Annual bonus award	The amount payable if all of the threshold targets in the annual bonus scorecard are met, which is 25% of the maximum scenario.	The mid-point of the threshold and maximum scenarios.	The maximum payable if all of the maximum targets for each metric in the annual bonus scorecard are met.
	In all three scenarios the annual bonus award is then partly paid in cash, partly granted as an upfront fund award and partly subject to deferral into share and fund awards, as outlined in the policy.		
LTIP	The face value of the March 2020 award, assuming 25% vesting.	The mid-point of the threshold and maximum scenarios.	The face value of the March 2020 award, assuming 100% vesting.

The aggregate value of fixed remuneration paid in the year, the annual bonus award in respect of the year and the grant-date market value of the LTIP shares granted following the year end will not exceed £9 million each year for the current Group Chief Executive and £4.5 million for the current Chief Financial Officer. The single total remuneration figure for the Group Chief Executive over the past 10 years is shown on page 98. The maximum total remuneration for Peter Harrison is similar to the highest single total remuneration figure awarded to the Group Chief Executive over that period.

The maximum scenario above includes the face value of the March 2020 LTIP award, assuming 100% vesting. If the Schroders share price increased between the date of grant and date of vesting of the LTIP award, the remuneration value disclosed in the single total remuneration figure table would be higher. Share price growth of 50% would increase those maximum total remuneration values to £9.3 million and £4.7 million respectively, which was calculated by uplifting the face value at grant of the LTIP shares to be granted in March 2020 by 50%.

## Remuneration policy changes

The key changes proposed to the remuneration policy for the executive Directors' are set out in the Committee Chairman's Remuneration overview, on page 73. The table below sets out more detail and any particular context in each case.

- **Adopting an annual bonus scorecard for the executive Directors, consisting of 70% financial factors and 30% non-financial factors.** This will increase transparency and certainty for shareholders and Directors. The weighting towards financial factors reflects the Group's principle that remuneration should be aligned with financial performance, while the use of non-financial factors provides scope to reflect achievement in other areas, such as strategic progress, sustainability, people and talent, risk and conduct and individual objectives for the year.
- **Introducing a maximum level of total remuneration for each executive Director.** This responds to concerns that some shareholders raised with our current uncapped remuneration approach, while ensuring Schroders remains able to attract, retain and motivate the calibre of individual required to run a business whose main competitors do not operate in the same UK-listed environment and are often privately owned.
- **Increasing from 50% to 75% the proportion delivered in shares of any deferred bonus awarded to the executive Directors.** This will increase shareholder alignment, alongside share-based awards under the LTIP. Keeping the remainder of deferred bonus in fund awards, along with 50% of the upfront portion of the bonus, maintains crucial alignment to clients and our regulatory obligations under the UCITS Directive and AIFMD.
- **Increasing the level of shareholding that must be maintained after stepping down as an executive Director.** We propose to increase this to be based on 500% of salary for the Group Chief Executive and 300% of salary for other executive Directors, which is 100% of the level of shareholding that they are required to acquire and maintain while an executive Director, under the personal shareholding policy. This will increase shareholder alignment and reflects developments in corporate governance best practice.
- **Seeking shareholder approval for new LTIP rules.** The LTIP continues to provide long-term alignment to shareholders. The net new business and EPS measures remain challenging and the four-year performance period followed by a one-year holding period already aligns with best practice. At the 2020 AGM, we will be seeking shareholder approval for new LTIP rules, as the current plan was approved in 2010 and so is due to expire.
- **Seeking shareholder approval for new DAP rules.** The operation of bonus deferral for the executive Directors will be governed by the Directors' remuneration policy, utilising the DAP rules as the framework under which upfront and deferred fund awards and deferred share awards will be granted, as set out on page 84. The DAP rules also provide the flexibility we need to operate the different incentive structures that we require across our global operations.
- **Introducing mitigation terms for retiring executive Directors.** The proposed new DAP and LTIP rules introduce terms such that, if the Committee uses discretion to permit a retiring executive Director to retain unvested incentive awards, the unvested elements of their awards that they are entitled to retain remain at risk of forfeiture for 12 months if the former Director gets an executive role at another publicly listed company before the award vests. This mitigates the cost to the Group in these circumstances and reflects developments in corporate governance best practice.
- **Broadening the Committee's discretion to reduce LTIP vesting.** Under the current LTIP rules, the Committee has the discretion to reduce LTIP vesting if any member of the Group has suffered a material failure of risk management or if the Committee judges that the unadjusted outcome from the performance conditions does not reflect the underlying performance of the Company. In the proposed new LTIP rules, this latter element is extended to include the underlying performance of the Group, any business unit or subsidiary, or the LTIP participant. This broadens the range of circumstances in which the Committee has discretion to reduce LTIP vesting.



Read more about the new LTIP and DAP rules in the 2020 Notice of AGM.

## Remuneration policy for the non-executive Directors

The table below sets out the remuneration policy for non-executive Directors, who only receive fixed pay and benefits.

Component	Operation	Further information
Fixed pay	<b>Fees</b> To reflect the skills, experience and time required to undertake the role.	Fees for the Chairman are determined by the Committee, and fees for other non-executive Directors are determined by the Board, in each case 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 own fees.
	<b>Benefits</b> To enable the non-executive Directors to undertake their roles.	Fees are usually reviewed biennially.  Non-executive Directors do not participate in post-employment or retirement benefits, or in any of the Group's incentive arrangements. As former executive Directors, Michael Dobson and Philip Mallinckrodt have accrued pension benefits. Both have ceased accruing any further entitlement. Michael Dobson has been in receipt of a pension since May 2012.

## Recruitment of new Directors

The table below summarises the remuneration policy when hiring new executive Directors.

Policy and operation	
<b>Overall approach</b>	On appointment, 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, while avoiding paying more than is necessary.
<b>Maximum total remuneration</b>	On appointment of any new executive Directors to the Board, the Committee will consider the appropriate maximum total remuneration value for the role, within the parameters of the current policy.
<b>Notice periods</b>	The Group's general policy is that each executive Director will have a rolling contract of employment with mutual notice periods of six months. The Committee will consider the appropriate notice period when appointing any new executive Director. If necessary to secure a new hire, a notice period of up to 12 months may be offered. When recruiting new executive Directors, the Committee's policy is that contracts will not contain any provision for compensation upon early termination.
<b>Base salary</b>	Base salary is likely to be set at the same level as for other executive 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.
<b>Other fixed pay</b>	Benefits and allowances, retirement benefits and SIP participation will be provided to new executive Directors on a similar basis as those available to other employees. If the Group hires a new executive Director internationally then relocation support may be offered, on a similar basis to that which might be offered for other employees. This may include support such as temporary accommodation, assistance finding new accommodation, transportation of household goods, school search for children moving internationally with the Director, tax advice and assistance preparing tax returns and a one-off cash allowance of up to £5,000 after tax.
<b>Annual bonus award</b>	New executive Directors would be eligible to be considered for annual bonus awards in the same way as existing Directors. The Group does not award guaranteed annual bonuses to executive Directors.
<b>LTIP</b>	New executive Directors would be eligible to be considered for LTIP awards in the same way as existing Directors.
<b>Legal fees</b>	The Group may pay reasonable fees for a new executive Director to obtain independent legal advice in relation to their appointment.
<b>Buy-out awards</b>	Where a candidate will forfeit remuneration as a result of leaving their current employer or joining Schroders, the Group may mitigate that loss by making one-off awards as a term of their appointment. The Committee will take reasonable steps (within the terms of the Group's incentive plans) so any buy-out awards are aligned in amount and terms with the remuneration being forfeited. Malus and clawback terms will apply to any such awards.
<b>Appointments outside the UK</b>	If a new executive Director is based outside the UK, the Committee will adapt the terms of the Directors' remuneration policy to comply with local requirements and so the executive Director can participate in arrangements that are in line with the wider workforce in that jurisdiction.
<b>Grandfathering</b>	Any remuneration commitment made prior to an individual becoming a Director and not in anticipation of their appointment to the Board will be honoured, even where it is not consistent with the Directors' remuneration policy in place at the time it is fulfilled.

New non-executive Directors receive fees and benefits in line with the policy for other non-executive Directors. Non-executive Directors are engaged under letters of appointment. They do not have service contracts. When recruiting new non-executive Directors, the Board's policy is that letters of appointment will have a mutual notice period of six months.

## Directors' service contracts and letters of appointment

Each of the executive Directors has a rolling service contract with a mutual notice period of six months. Each of the non-executive Directors has a letter of appointment with a mutual notice period of six months. Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at each AGM.

## Policy on termination arrangements

The table below sets out the remuneration policy on termination of a Director.

Policy and operation	
<b>Overall approach</b>	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 Directors' remuneration policy, as well as the terms of the Directors' service contract and the rules of any applicable incentive plans. There are no contractual provisions for non-executive Directors to receive compensation upon termination.
<b>Fixed pay</b>	Base salary, benefits and allowances, and retirement benefits for executive Directors, and fees for non-executive Directors, will continue to be paid through the notice period. The Committee also has the discretion to make a payment in lieu of notice to executive Directors, normally based on salary only. The treatment of shares acquired or awarded under the SIP will be in accordance with the plan rules.
<b>Annual bonus awards</b>	Departing executive Directors do not have a contractual entitlement to an annual bonus award. If a departing Director works during the notice period to achieve the Group's goals and supports an effective transition of responsibilities, or leaves due to death, ill health, injury or disability, the Committee may recommend to the Board that a discretionary payment be made to reflect the Director's contribution during the proportion of the financial year worked. Any such payment will normally be subject to the same deferral arrangements as an annual bonus award, provided this is permitted under applicable law and regulations, and except in the case of death, ill health, injury or disability when at the Committee's discretion payment may be fully in cash.
<b>DAP awards</b>	The treatment of awards under the DAP will be in accordance with the relevant plan rules. The normal treatment is that unvested awards are forfeited (see page 84). In certain circumstances, such as death, ill health or injury, or otherwise at the Committee's discretion (which might be used in circumstances such as retirement with the agreement of the Company or leaving by mutual agreement), those rules permit participants to retain some or all of their unvested awards following the termination of their employment. Any unvested awards that are retained vest on their normal vesting date, or vest immediately in the case of death, or ill health, injury or disability at the Committee's discretion.
<b>LTIP awards</b>	The treatment of awards under the LTIP will be in accordance with the relevant plan rules. The normal treatment is that unvested awards are forfeited (see page 85). In certain circumstances, such as death, ill health or injury, or otherwise at the Committee's discretion (which might be used in circumstances such as retirement with the agreement of the Company or leaving by mutual agreement), the award normally still vests after the performance period, subject to the performance conditions and holding period, with the proportion that vests reduced pro-rata for the proportion of the performance period worked. Vesting will be accelerated if the participant dies, with the proportion that vests determined by estimating the extent to which the performance conditions will be met. Departing executive Directors are not eligible to receive new LTIP awards.
<b>Restrictive covenants</b>	Executive Directors' service contracts include restrictions prohibiting the solicitation of Schroders clients or employees for a period of 12 months after leaving employment, against which any period spent on notice or garden leave is offset. If the Committee uses its discretion to permit a departing Director to retain unvested DAP or LTIP awards, the unvested portions of their awards that the leaver is allowed to retain normally remain at risk of forfeiture for a specified period if they join a competitor or solicit Schroders' clients or employees before the award vests. The same applies if a retiring executive Director is allowed to retain portions of their unvested awards and then takes up an executive role at another publicly listed company within 12 months.
<b>Shareholding requirements</b>	On stepping down, executive Directors are required to maintain for a period of two years a holding of shares or interests in shares equal in number to that which applied under the personal shareholding policy while they were an executive Director, or the number actually held on stepping down if lower.
<b>Legal fees</b>	The Group may pay reasonable fees for a departing Director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Company's rights following termination. If the value of either of these exceeds £10,000 it will be disclosed in the Annual report on remuneration.
<b>Retirement gifts</b>	The Board may choose to make a retirement gift to a departing Director. If the value of any such gift exceeds £10,000 it will be disclosed in the Annual report on remuneration.
<b>Settlement agreements</b>	The Committee may agree additional exit payments where such payments are made in good faith to discharge an existing legal obligation, as damages for breach of such obligation, in settlement or compromise of any claim or potential claim arising on termination of a Director's office or employment or to strengthen the Group's rights post-termination. This may include the provision of outplacement support. If the value of any such payment exceeds £10,000 it will be disclosed in the Annual report on remuneration.
<b>Other payments</b>	Other payments to former Directors that do not exceed £10,000 will not be disclosed in the Annual report on remuneration. Payments can also be made where an amendment to the policy authorising the Company to make the payment has been approved by shareholders.



# Annual report on remuneration

Pages 93 to 108 constitute the Annual report on remuneration. Shareholders will have an advisory vote on this section, together with the Remuneration overview on pages 72 to 79 and the Remuneration governance section on pages 80 and 81, at the AGM. Where required, this information has been audited by EY.

This section sets out remuneration outcomes for 2019, across Schroders as a whole and specifically for the executive and non-executive Directors, and compares them to remuneration outcomes for 2018. The Directors' remuneration was managed in line with the current Directors' remuneration policy, approved by shareholders at the 2017 AGM and summarised at [schroders.com/directors-remuneration-policy](https://www.schroders.com/directors-remuneration-policy).

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

## Aligning pay and performance across Schroders

### Group performance

Net income excluding exceptional items increased by less than 1% in 2019, reflecting reduced 2019 management fees from net new business in 2018 and 2019. The Group's profit before tax and exceptional items was £701.2 million, down 8%, and basic earnings per share before exceptional items was 201.6 pence, down 7%, reflecting higher non-compensation costs as well as the year-on-year revenue trend. The Board is recommending a final dividend of 79 pence, bringing the total dividend for the year to 114 pence, in line with the total dividend for 2018.

Record net inflows were £43.4 billion (2018: outflows of £9.5 billion). AUM ended the year at £500.2 billion (2018: £407.2 billion) and 68% (2018: 74%) of our internally-managed Asset Management AUM outperformed its stated comparator over the three years to 31 December 2019.

 Further information on the Group's operating and financial performance can be found in the Business and financial review, from page 22. Page 3 and the table on pages 16 and 17 outline the Group's strategy. Pages 18 and 19 show our performance against our key performance indicators over the five years to 31 December 2019.

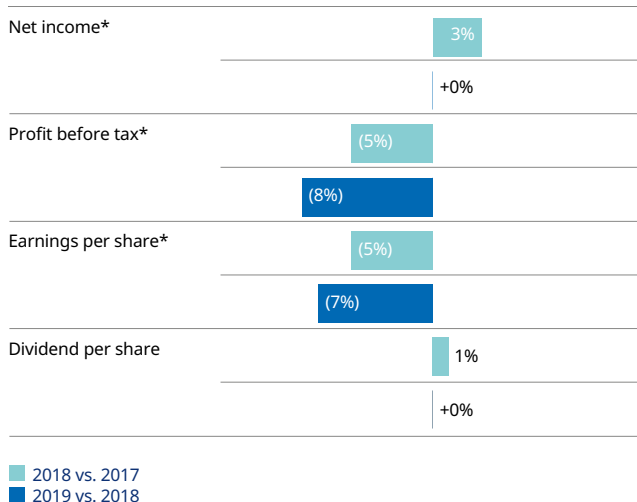
### Aligning remuneration costs with financial performance

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

The Committee received a report on the underlying strength and sustainability of the business and reports on compliance, legal, risk and internal audit matters from the heads of those areas. These were considered as part of the 2019 compensation review.

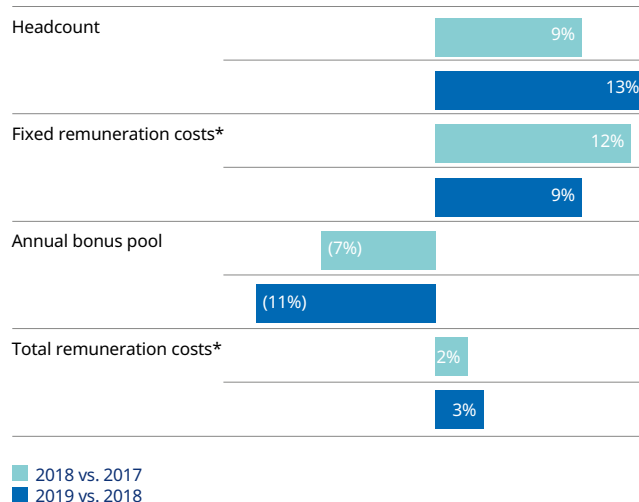
The Committee determined the annual bonus pool for the year ended 31 December 2019 based on a total compensation ratio of 44% (2018: 43%). The total compensation ratio is below our target range of 45% to 49%, as the Committee and the Board as a whole remain mindful of the challenges the asset management industry faces. From 2018 to 2019, headcount is up 13% and fixed remuneration costs are up 9%. The annual bonus pool was down 11%, or down 15% based on the mean bonus per bonus-eligible employee, assuming constant currency rates in each case (as shown in the table on page 94).

### Key performance metrics



\* Before exceptional items.

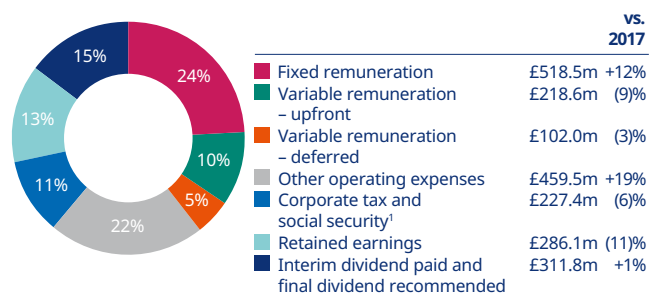
### Key remuneration metrics



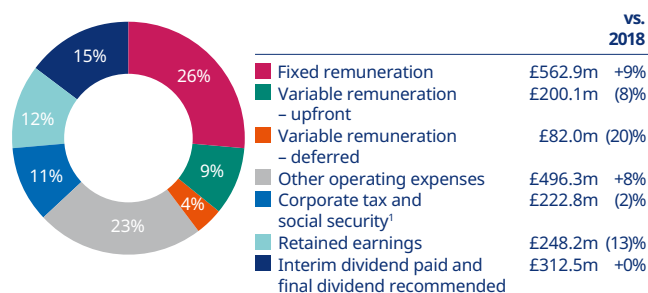
### Relative spend on pay

The charts below illustrate the relative spend on pay for 2019 compared with 2018. The values are taken from the financial statements and show how remuneration costs before exceptional items compare with shareholder distributions, taxes arising and earnings retained, to illustrate how net income is utilised. Distributions to shareholders in respect of 2019 formed a similar proportion of the total to that for 2018.

#### 2018



#### 2019



1. Corporate tax and social security includes employer's social security costs, which for 2019 was equal to 4% of net income (2018: 3%).

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

The Group Chief Executive allocates the overall annual bonus pool between the divisions or functions headed by GMC members, taking into consideration both financial and non-financial performance. Variable remuneration awards for individual employees, other than for the Group Chief Executive and his direct reports, are recommended to the Group Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant business area and the levels of reward for comparable roles in the market.

The Committee determines the remuneration for the executive Directors, other members of the GMC and the Group Company Secretary, monitors and reviews remuneration for the control function heads and other MRTs, and also provides oversight of the compensation review outcomes for employees more broadly. The Committee determines Directors' remuneration in the context of remuneration across the Group, including financial performance, the total compensation ratio and the remuneration outcomes for the wider workforce. For 2019, the Committee was satisfied that the year-end process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance, including conduct and behaviours as described on page 107.

The table below compares the annual bonus pools for performance years 2019 and 2018, divided into amounts paid in cash, upfront fund awards and amounts deferred into share awards and fund awards. The 2018 figures are also shown after adjustment to reflect the foreign exchange rates used during the 2019 compensation review, to provide a better comparison of what was awarded to employees each year. The bonus pool is shown on the basis of the amounts awarded to employees in respect of performance each year, rather than the costs charged to each year's income statement, and includes amounts that are reported as exceptional items as they relate to cost-reduction programmes.

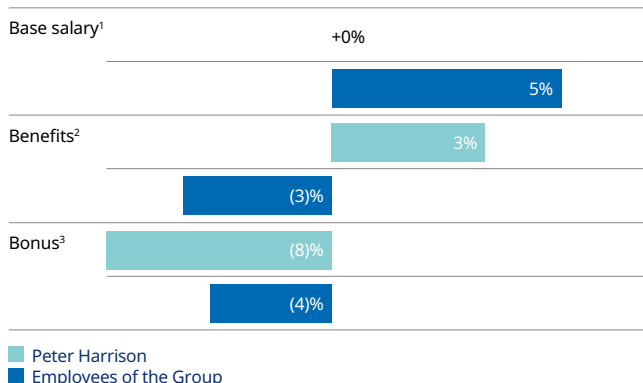
	2019	Adjusted 2018¹	2018
<b>Total compensation ratio</b>	<b>44%</b>	<b>n/a</b>	<b>43%</b>
	£m	£m	£m
Annual bonus awards:			
– paid in cash	179.8	198.7	195.9
– granted in upfront fund awards	27.0	28.4	28.1
– deferred into share awards	48.1	56.1	55.5
– deferred into fund awards	44.1	51.6	51.0
<b>Bonus pool</b>	<b>299.0</b>	<b>334.8</b>	<b>330.5</b>
Proportion of bonus pool that is deferred	31%	32%	32%
Number of bonus-eligible employees	4,365	4,169	4,169
Mean annual bonus award per bonus-eligible employee	£68,505	£80,305	£79,270
Median annual bonus award per bonus-eligible employee	£15,600	£18,744	£18,500
Group Chief Executive's bonus as a % of the bonus pool	1.9%	1.8%	1.9%
Aggregate bonuses to executive Directors as a % of the bonus pool	2.7%	2.6%	2.7%

1. Adjusted to the same foreign exchange rates as those used for the 2019 figures.

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

The chart below compares, for each of base salary, benefits and annual bonus award, the percentage change from performance year 2018 to 2019 for the Group Chief Executive with the average year-on-year percentage change across employees of the Group taken as a whole (except where noted).

### Comparison of the percentage change in value from 2018 to 2019



1. For base salary, employees of the Group are those who were in employment for the full year to 31 December 2019 and represents the average salary increase during 2019.
2. For benefits, employees of the Group is a per capita figure for those who were in employment in the UK for the full year to 31 December 2019 and represents the average change in benefits value during 2019.
3. For bonus, employees of the Group is a per capita figure for bonus-eligible employees who were in employment for all of 2019 and 2018.

The amounts shown for the Group Chief Executive are those shown in the single total remuneration figure table on page 96.

Peter Harrison received no base salary increase in 2019. Salary increases across the Group during 2019 were targeted at employees whose roles had increased in scope materially during the year and those whose fixed pay significantly lagged behind market rates. Particular attention was also given to those on lower salaries, for whom fixed pay forms a greater proportion of total remuneration.

The value of Peter Harrison's benefits increased by 3%, reflecting slightly greater usage of a car and driver, offset somewhat by lower income protection and life assurance costs after these were renegotiated effective 1 May 2019. Benefits for other employees reduced by 3% due to the renegotiation of those costs.

Peter Harrison's annual bonus award for 2019 was 8% lower than for 2018, in line with the year-on-year decline in profit before tax and exceptional items. The mean annual bonus award decrease for bonus-eligible employees who worked in the Group for all of 2019 and 2018 was 4%, as shown above, and the median was 11%. Individual annual bonus awards for 2019 compared with 2018 varied from an increase in excess of 100% to a reduction to zero bonus, reflecting our pay for performance philosophy.

Peter Harrison's single total remuneration figure decreased by 4% year-on-year, compared with a median increase of 0% and a mean increase of 2% for employees who worked in the Group for all of 2018 and 2019.

## Female representation and gender pay

Schroders is committed to promoting diversity of thought and ensuring Schroders is an inclusive place to work. That commitment is broader than gender and pages 31 and 32 provide more information on the Group's approach to inclusion and diversity.

In 2016, Schroders committed to increase female representation in senior management from 25% at the end of 2015 to 30% by the end of 2019. That goal was met during 2017. As a result, this target was increased to 33% female representation in senior management by the end of 2019. At the end of 2019, female representation in senior management was 32% (2018: 32%), falling slightly short of that revised target. Work on this will continue. Female representation on the GMC has been increased from 7% to 31% since the end of 2016 (2018: 31%).

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

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

Top quartile of employees based on hourly fixed pay	24% females, 76% males
2 <sup>nd</sup> quartile	38% females, 62% males
3 <sup>rd</sup> quartile	49% females, 51% males
Bottom quartile	55% females, 45% males
<b>Total workforce</b>	<b>42% females, 58% males</b>

Analysis of pay levels for comparable roles across Schroders shows that male and female employees are paid fairly for similar work. However, the lower representation of women at senior levels within the Group, which is an issue across the financial services sector, is reflected in the gender pay gaps shown below. This looks across the total workforce and sets out the gender pay gap for both hourly fixed pay and total variable pay, consisting of the annual bonus awarded in respect of 2019 plus any other incentive awards during the year.

Schroders globally		
Hourly fixed pay	The amount by which the male median exceeds the female median, as a % of the male median	27% (2018: 30%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	27% (2018: 29%)
Total variable pay	The amount by which the male median exceeds the female median, as a % of the male median	50% (2018: 56%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	58% (2018: 60%)
	The proportion of female and male employees who received variable pay	92% of females, 91% of males (2018: 93% / 94%)

The work to date to promote senior management diversity, and the diversity across other higher-paid roles in the Group, is reflected in improvements in these gender pay gaps, though there remains more to do. There is also a higher proportion of males in lower paid roles in 2019 compared to 2018, which reduces our gender pay gaps. Compared to pay outcomes when the Group first reported its global gender pay gap, in respect of 2016, the gap for the median hourly fixed pay has narrowed from 33% to 27%, while the gap for the mean narrowed from 31% to 27%. The gap for the median bonus has narrowed from 59% to 50% and the gap for the mean bonus has narrowed from 66% to 58%.

For more information on diversity and inclusion at Schroders, including our UK gender pay gap disclosures, see our website at [schroders.com/inclusion](https://www.schroders.com/inclusion).




## Single total remuneration figure for each executive Director (audited)

The total remuneration of each of the executive Directors for the years ended 31 December 2019 and 31 December 2018 is set out below.

2019 (£'000)	Base salary	Benefits and allowances	Retirement benefits	Total fixed pay	Annual bonus award	LTIP vested	Total variable pay	Total remuneration
Peter Harrison	500	16	45	561	5,680	242	5,922	6,483
Richard Keers	375	7	45	427	2,350	181	2,531	2,958
<b>Total</b>	<b>875</b>	<b>23</b>	<b>90</b>	<b>988</b>	<b>8,030</b>	<b>423</b>	<b>8,453</b>	<b>9,441</b>

2018 (£'000)	Base salary	Benefits and allowances	Retirement benefits	Total fixed pay	Annual bonus award	LTIP vested	Total variable pay	Total remuneration
Peter Harrison	500	15	45	560	6,175	–	6,175	6,735
Richard Keers	375	7	45	427	2,600	–	2,600	3,027
<b>Total</b>	<b>875</b>	<b>22</b>	<b>90</b>	<b>987</b>	<b>8,775</b>	<b>–</b>	<b>8,775</b>	<b>9,762</b>

The methodology for determining the single total remuneration figure is set out below. A chart illustrating the figures above can be found in the Remuneration overview on page 77:

<b>Base salary</b>	Represents the value of salary earned and paid during the financial year.
<b>Benefits and allowances</b>	Includes one or more of: private healthcare, life assurance, permanent total disability insurance, Share Incentive Plan matching shares and private use of a company car and driver.
<b>Retirement benefits – see page 102</b>	Represents the aggregate of contributions to defined contribution (DC) pension arrangements and cash in lieu of pension for Peter Harrison, and cash in lieu of pension for Richard Keers.  Page 102 shows how the retirement benefits figures above are comprised for each Director.
<b>Annual bonus award – see pages 99 to 101</b>	Represents the total value of the annual bonus award for performance during the relevant financial year.  Pages 99 and 100 set out the basis on which annual bonus awards for 2019 were determined. Page 101 breaks down the annual bonus awards for 2019 into cash paid through the payroll in February 2020 and the upfront fund awards, deferred fund awards and deferred share awards that will be granted in March 2020.
<b>LTIP vested – see pages 101 and 102</b>	Represents the estimated value that is expected to vest on 5 March 2020 from LTIP awards granted on 7 March 2016, using the average closing mid-market share price over the three months ended 31 December 2019 and the percentage of the awards that is expected to vest. The comparative value shown for 2018 is nil because LTIP awards granted on 9 March 2015 lapsed without vesting, as the performance conditions for those awards were not met.  Page 101 sets out more information on the performance achieved and how vesting will be determined and page 102 shows how the value shown above has been calculated, including how much of the value is attributable to share price growth during the period from grant to vesting.  Page 104 sets out information on LTIP awards granted to the executive Directors during 2019. These awards are not reflected above as they will vest in 2023, subject to performance conditions over performance years 2019 to 2022, and the value expected to vest will be included in the single total remuneration figures for 2022 performance. Page 108 sets out information on LTIP awards to be granted to the executive Directors in March 2020. Again, these are not reflected above as they will vest in 2024, subject to performance conditions over the performance years 2020 to 2023, and the value expected to vest will be reflected in the single total remuneration figures for 2023 performance.



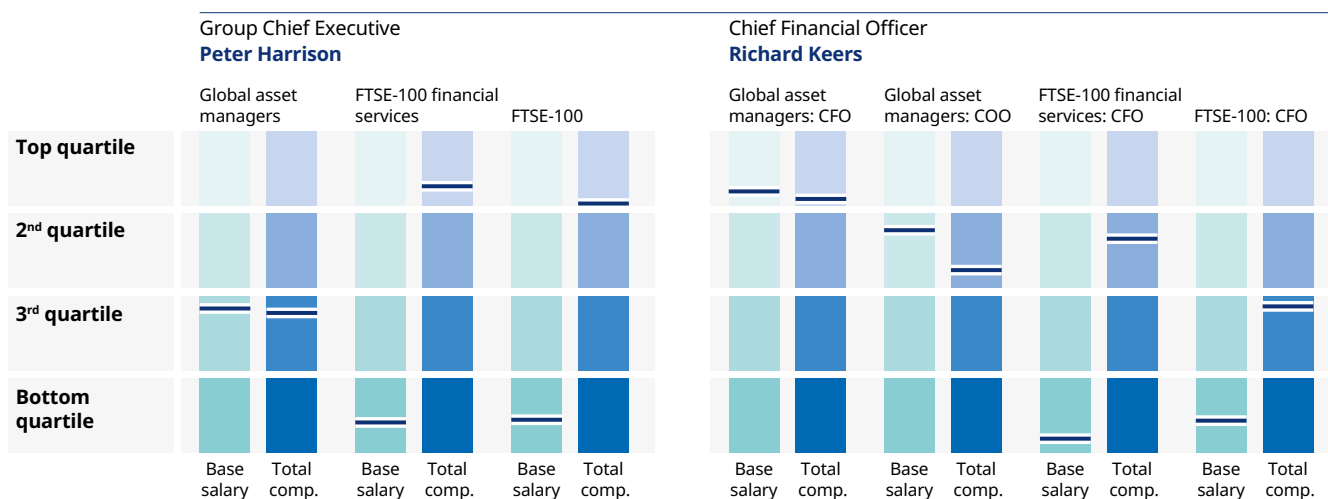
## Competitive positioning

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

Remuneration levels for employees, including the executive Directors, are reviewed annually and benchmarked by reference to the external market to ensure they remain appropriately competitive. The chart below illustrates the competitive positioning of pay for each executive Director, while the table on the right provides additional commentary on the remuneration benchmarking approach in each case. Total compensation (abbreviated in the chart to total comp.) reflects base salary at the year end, annual bonus award for 2019 and the market value at the date of grant of any LTIP shares granted during the year (see page 104), assuming 50% vesting. The market data used in benchmarking these roles was provided independently by external advisers and reflects competitor pay for 2018, which is the most up-to-date data available, whereas the position shown for Schroders in each case reflects remuneration awarded for 2019.

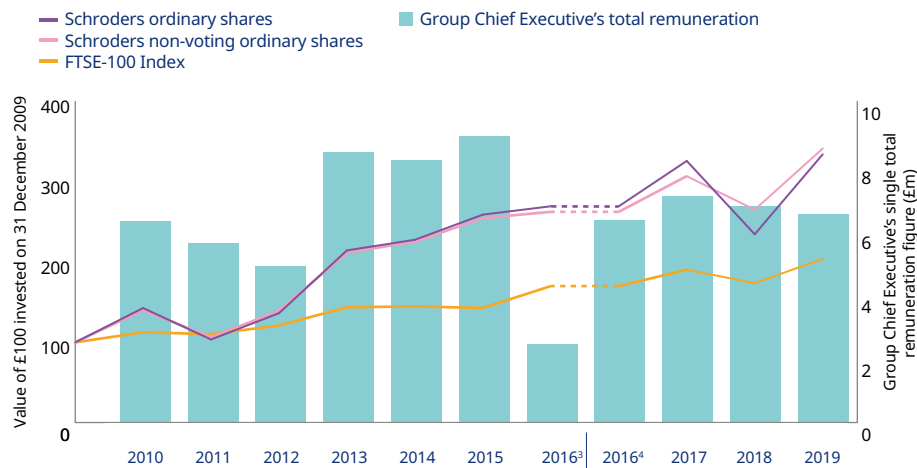
In considering competitiveness, the Committee focuses on levels of total compensation for comparable roles at other large international asset management firms, though the benchmark peer group is adjusted for some roles to provide a more appropriate comparison. This benchmarking is used to establish a frame of reference for what competitors are paying for comparable roles, rather than as the starting point or a primary factor when remuneration decisions are made. As outlined on pages 99 and 100, annual bonus awards are based on the Committee's assessment of the overall performance of the business and of each executive Director. The policy is to aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared with other FTSE-100 financial services firms and the FTSE-100 more broadly, as can be seen below.

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



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

The graph on the right compares the total shareholder return of Schroders shares with that of the FTSE-100, of which Schroders is a long-standing constituent. Over the past 10 years, the index has returned 104%, compared with a 234% return for Schroders ordinary shares and 242% for Schroders non-voting ordinary shares. This graph also shows the Group Chief Executive's single total remuneration figure over the 10 years ended 31 December 2019, for comparison. The table below sets this out in figures, as well as showing how variable pay plans have paid out each year.



Financial year	2010	2011	2012	2013	2014	2015	2016 <sup>3</sup>	2016 <sup>4</sup>	2017	2018	2019
	Michael Dobson							Peter Harrison			
Single total remuneration figure (£'000)	6,267	5,570	4,870	8,414	8,155	8,905	2,451	6,311	7,059	6,735	6,483
Annual bonus award (actual award as a % of 10-year highest bonus) <sup>1</sup>	73%	65%	56%	81%	87%	100%	25%	70%	82%	78%	72%
LTIP (vesting as a % of maximum) <sup>2</sup>	n/a	n/a	n/a	100%	50%	50%	50%	50%	n/a	0%	50%

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

### UK pay ratios table

The table below compares the Group Chief Executive's single total remuneration figure for 2019 to the remuneration of the Group's UK workforce as at 31 December 2019.

Year	Method	25 <sup>th</sup> percentile pay ratio	Median pay ratio	75 <sup>th</sup> percentile pay ratio
2019	Option A	42 : 1	72 : 1	117 : 1

The rules that require this disclosure to be made set out three possible methodologies that companies can adopt, which it terms Options A, B and C. The Group has adopted Option A as this is the most robust methodology, requiring the Group to calculate the pay and benefits of all its UK employees for the relevant financial year in order to identify the total remuneration at the 25<sup>th</sup> percentile, at the median and at the 75<sup>th</sup> percentile. We have based the calculation of these total remuneration percentiles on salaries as at 31 December 2019 plus any annual bonus award in respect of 2019 and any other incentive awards granted during 2019. In calculating these ratios, salary and any annual bonus award for employees who work part time have been pro-rated up to a full-time equivalent. We have not included any taxable travel benefits, such as the reimbursement of occasional travel home from work that was covered by the Group's travel and expenses policy but did not qualify as tax-free under HMRC rules on taxable benefits. No other assumptions or statistical modelling were required.

The total remuneration value for the employee at the 25<sup>th</sup> percentile, median and 75<sup>th</sup> percentile was £154,667, £89,743 and £55,400 respectively, of which the salary component made up £85,000, £68,000 and £50,000 respectively.

This is the first year since the introduction of this disclosure requirement and so it is too soon to provide a year-on-year comparison or to determine longer-term trends.

### Basis for determining annual bonus awards

In determining the annual bonus award for the executive Directors, the Committee made an assessment of the overall performance of the business using our key performance indicators, as outlined on pages 18 and 19, which are aligned to the Group's strategy. An assessment of each individual's performance was also made, including business performance within each individual's responsibilities, and the extent to which they have met annual objectives.

Financial factors such as profitability, cost control and investment performance represent the majority of measures the Committee considered, to ensure that remuneration outcomes are aligned to financial performance. Both short-term and long-term performance were taken into account. Strategic progress was also a key element of the Committee's consideration. Non-financial factors such as risk management, conduct and talent retention were also considered, although had less prominence in determining the annual bonus awards. The factors in the summary below resemble those in the annual bonus scorecard that we propose to adopt for 2020, subject to shareholder approval.

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




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

Criteria	Target	Performance in 2019	Extent to which target has been met
<b>Financial factors</b>			
Trend in profit for the year <sup>1</sup> and appropriate cost control	Ratio of total cost to net income 65%. Total compensation ratio 45% to 49% depending on market conditions.	67% (2018: 64%). 44% (2018: 43%).	2019 saw a reduction in profit, with profit before tax and exceptional items down 8% and basic earnings per share before exceptional items down 7%, as we continued to invest in the future growth of the business. The ratio of total cost to net income was above our target, reflecting that investment in future growth. The total compensation ratio was below our target range.
Client investment performance <sup>1</sup>	At least 60% outperformance over three years.	68% (2018: 74%).	Investment performance over three years remains strong.
NNB <sup>1</sup>	Achieve budgeted new business flows.	£43.4bn (2018: £(9.5)bn).	NNB saw record inflows, driven by Solutions strategies, Wealth Management and Private Assets & Alternatives. Mutual Funds and Institutional saw net outflows as clients continued to de-risk their portfolios.
Share price performance	Total shareholder returns in excess of that of the FTSE-100 Index.	Over one, three and five years, the return on ordinary shares was 42%, 24% and 47%, and on non-voting ordinary shares was 29%, 30% and 51% respectively, versus FTSE-100 returns of 17%, 20% and 41% respectively.	Schroders continues to create value for shareholders over the long term (see page 98).
<b>Strategic factors</b>			
Strategic progress	Progress in identified strategic opportunities: growing Asset Management; building closer relationships with our end clients; expanding our capabilities in Private Assets.	2019 saw significant progress across a number of strategically important areas, including: <ul style="list-style-type: none"> <li>- We grew our Asset Management business through further diversifying our global footprint, growing our Solutions business and building out teams to meet client demand.</li> <li>- We strengthened our sustainable investment capabilities through further development of our proprietary tools and growing the team.</li> <li>- We launched our joint venture with LBG, Schroders Personal Wealth, and acquired the Singapore-based wealth management business of ThirdRock Group.</li> <li>- We expanded our Private Assets capabilities via a majority stake in impact investor BlueOrchard and acquiring Germany-based real estate business Blue Asset Management.</li> <li>- We agreed a wide-ranging partnership with Bank of Communications in China, building on the joint venture that we have had with them since 2005.</li> </ul>	

1. Included in the key performance indicators on pages 18 and 19.








● Criteria met ● Partially met ● Not met

## Group-wide factors continued:

Criteria	Target	Performance in 2019	Extent to which target has been met	
<b>Non-financial factors</b>				
Talent retention <sup>1</sup> and succession planning	Retention of at least 90% of key talent. Identify and implement succession plans for key employees.	94% retention (2018: 94%).	Retention of key talent remains above target. Succession plans for key employees were reviewed by the Board in September 2019.	
Diversity and inclusion	33% female representation within senior management by the end of 2019.	32% (2018: 32%).	We met our original target of 30% and increased this to 33%. At the end of 2019, this ratio was 32%.	
Risk management and good conduct	Key issues considered by Audit and Risk Committee.	No significant issues identified during the year.	Major business change including the transfer in of the first tranches of the Scottish Widows mandate has been successfully implemented and the associated risks managed. See also the Audit and Risk Committee report (page 66) and information on conduct, compliance and risk management in remuneration (page 107).	

1. Included in the key performance indicators on pages 18 and 19.

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

Executive Director	Criteria	Performance in 2019 and extent to which the Committee judged each performance criterion has been met	
All	Overall performance of the Group	Group performance is outlined in the Business and financial review (from page 22) and summarised on the previous page. Against the backdrop of well-publicised headwinds facing the asset management industry, the executive Directors have continued to develop our business in line with our strategy. They produced commendable results in a challenging environment, including record net new business, although profit is down 8% year-on-year. We believe Schroders is well positioned compared to many other active managers. Investment performance for clients remains ahead of our target.	
Peter Harrison	Strategic progress	2019 saw Peter drive significant progress against each of the strategic objectives that we believe will drive the future growth of the business, as outlined on the previous page.	
	People and talent	Peter successfully implemented a new management structure during 2019, promoting internally into key roles and also bringing in new talent from outside the firm where appropriate. There remains further work to be done on planning senior management succession. Talent retention has been good.	
	Risk and reputation	Peter takes a personal lead in ensuring Schroders' reputation is good with a wide group of stakeholders, including clients, shareholders, governments, regulators and industry associations. His work internally and externally in this regard is well respected. The risk and control framework has delivered what is required. SMCR was successfully implemented for our UK-regulated asset management entities.	
Richard Keers	Global operations oversight	Richard has reconfigured global operations, bringing experienced senior talent into the Group, and successfully delivered a clear global operations strategy, reducing complexity, improving resilience and providing enhanced scalability. Strong operational delivery, including the transfer in of the first tranches of the Scottish Widows mandate.	
	Oversee a strong risk and control function	The Group Risk and Capital Committees continued to operate well under Richard's leadership. No significant issues were reported in a year of significant operational change for the Group, with further improvements to internal risk-assessment processes. Feedback on risk oversight of fund liquidity and active risk taking is good. The Audit and Risk Committee report provides more information (from page 66).	
	Accurate, appropriate, clear and timely reporting and oversight of the Group's financial position	Richard ensured key reports were accurate and timely and succeeded in reducing the length and complexity of reports without compromising quality or insights. He received positive feedback from the Audit and Risk Committee, analysts, shareholders and other industry bodies.	

 Criteria met  Partially met  Not met

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



### Variable pay – annual bonus award (audited)

The table below sets out details of how the annual bonus award for each executive Director for performance during 2019 was structured. The total annual bonus award values are reflected in the single total remuneration figure for each executive Director on page 96. The table shows the face value of the LTIP award granted during 2019 (see page 104) and the percentage of variable pay that is deferred across annual bonus and LTIP combined.

2019 (£'000)	Upfront cash bonus award	DAP award				Total annual bonus award	Percentage deferred <sup>1</sup>	LTIP award	
		Upfront fund award	Deferred share award	Deferred fund award	Total DAP award			LTIP granted during 2019	Percentage of total variable pay deferred <sup>1</sup>
Peter Harrison	1,173	1,173	1,667	1,667	4,507	5,680	59%	600	63%
Richard Keers	495	495	680	680	1,855	2,350	58%	400	64%

1. In calculating the value of each executive Director's annual bonus award that is deferred, the amount of the bonus that is deferred is reduced to reflect the LTIP award granted during the year, though at a minimum 60% overall of total variable pay is deferred.

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

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

The LTIP awards granted on 7 March 2016, covering the 2016 to 2019 performance period, are expected to vest on 5 March 2020. The criteria for determining the extent of vesting are set out below. Despite the strong performance of Schroders since these awards were granted, the very demanding EPS target will not be met.

Performance measure	Maximum % of award	Performance achieved	Vesting % of award
<b>EPS</b>	50	The four-year growth in the composite index was 42.2% (see below). Four-year growth in adjusted EPS was 7.6%, which is less than the composite index and is insufficient to trigger any vesting of this part of the LTIP awards.	0
If the growth of adjusted EPS in the fourth year compared with the year prior to grant exceeds the defined composite index by:			
– less than 20%	no vesting		
– equal to 20%	12.5% vests		
– between 20-40%	straight-line basis		
– 40% or greater	50% vests		
<b>NNB cumulative over the four-year performance period:</b>	50	The four-year cumulative NNB from 2016 to 2019 was £44.6 billion, which is sufficient to trigger full vesting of this part of the LTIP awards.	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 expected to vest in relation to 2016 to 2019 performance			50

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

The composite index against which EPS performance was measured for these awards was set at the time they were granted. The table below sets out the make-up of that composite index and its growth over the four-year performance period:

Index	Weighting	Growth over the four-year performance period
Morgan Stanley Capital International (MSCI) All Countries Asia Pacific	15.0%	58.6%
MSCI All Countries World ex US	15.0%	54.2%
MSCI Emerging Markets	7.5%	71.8%
FTSE All Share	7.5%	42.4%
MSCI Europe	5.0%	46.6%
Barclays Capital Global Aggregate	50.0%	28.8%
Composite index (calculated as a weighted average)		42.2%

### Value at vesting of prior LTIP awards (audited)

The following table shows, for each Director, the estimated value expected to vest on 5 March 2020 from LTIP awards granted on 7 March 2016, based on the average closing mid-market share price over the three months ended 31 December 2019 and the expected vesting percentage shown on page 101. For each executive Director, the total value expected to vest is reflected in the single total remuneration figures on page 96.

Individual	Grant-date face value of LTIP award £'000	Proportion expected to vest in relation to 2016-2019 performance	Value of shares expected to vest (£'000)				Total estimated value vesting	Number of shares expected to vest
			Face value at time of grant	Pro-rata reduction on leaving employment	Impact of share price appreciation since grant			
Peter Harrison	400	50%	200	–	42		242	7,621
Richard Keers	300	50%	150	–	31		181	5,716
Philip Mallinckrodt	300	50%	150	(107)	8		51	2,126

The LTIP rules under which these awards were granted do not allow for awards to accrue additional value equivalent to dividends on the underlying shares. The awards for Peter Harrison and Richard Keers are over ordinary shares and for Philip Mallinckrodt is over non-voting ordinary shares. The award for Philip Mallinckrodt was granted while he was an executive Director and has been reduced pro-rata for the proportion of the performance period that he remained an employee of the Group. This reduction is reflected in the table above. Pages 105 and 106 detail his remaining rights under share and fund awards.

### Fixed pay – retirement benefits (audited)

The following table shows details of retirement benefits provided to executive Directors for the years ended 31 December 2019 and 31 December 2018. For the executive Directors, the sum of employer contributions and cash in lieu each year is reflected in the single total remuneration figures on page 96. Employer contributions represent contributions paid into DC pension arrangements during the year and exclude any contributions made by the Directors. There has been no DB pension accrual since 30 April 2011.

£'000	2019 employer contributions	2019 cash in lieu of pension <sup>1</sup>	2019 retirement benefits total	2018 employer contributions	2018 cash in lieu of pension <sup>1</sup>	2018 retirement benefits total	Accrued DB pension at 31 December 2019	Normal retirement age <sup>2</sup>
Peter Harrison	10	35	45	10	35	45	–	60
Richard Keers	–	45	45	–	45	45	–	60

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

### Fees from external appointments

The executive Directors are permitted to retain for their own benefit fees they receive from any external non-executive directorships, provided the directorships do not relate to any interest held by the Group. Richard Keers served throughout 2019 as a non-executive member of the Franchise Board of Lloyds, the specialist insurance market, until he stepped down on 31 December 2019. He received fees from Lloyds of £77,500 for 2019, including in respect of being a member and chair of the Franchise Board's Audit Committee during the year. These fees do not relate to the Group and so are not included in the single total remuneration figures on page 96. Peter Harrison does not receive any fees in respect of his external non-executive roles.

## Non-executive Directors' remuneration (audited)

The total remuneration of each of the non-executive Directors for the years ended 31 December 2019 and 31 December 2018 is set out below, based on the structure of non-executive Directors' fees set out below the table.

£'000	2019						2018					
	Basic fee	Committee chairman	Committee member	SID	Taxable benefits	Total	Basic fee	Committee chairman	Committee member	SID	Taxable benefits	Total
Michael Dobson	625	–	–	–	17	642	625	–	–	–	10	635
Sir Damon Buffini	80	4	20	–	–	104	73	–	2	–	–	75
Rhian Davies	80	25	23	–	–	128	80	25	20	–	–	125
Rakhi Goss-Custard	80	–	20	–	–	100	80	–	2	–	1	83
Ian King	80	–	20	20	–	120	80	–	20	14	–	114
Philip Mallinckrodt	80	–	–	–	–	80	80	–	–	–	–	80
Leonie Schroder	65	–	–	–	–	65	–	–	–	–	–	–
Deborah Waterhouse	65	–	3	–	–	68	–	–	–	–	–	–
Robin Buchanan	27	–	14	–	–	41	80	–	40	–	–	120
Nichola Pease	68	19	34	–	–	121	80	14	40	–	–	134
Bruno Schroder	18	–	–	–	3	21	108	–	–	–	3	111

The fees shown in each Director's case reflect the portion of 2018 and 2019 that they each served in their respective roles.

- Leonie Schroder and Deborah Waterhouse were appointed to the Board with effect from 11 March 2019 and Sir Damon Buffini was appointed to the Board with effect from 1 February 2018. In each case, on appointment as non-executive Directors their fees were set at the same level as for other non-executive Directors.
- Ian King was appointed SID and Nichola Pease was appointed Remuneration Committee Chairman on 26 April 2018.
- Bruno Schroder died on 20 February 2019 after a short illness, having made an enormous contribution to the Company over more than 50 years.
- On 6 November 2019, Nichola Pease stepped down from the Board, Sir Damon Buffini was appointed Chairman of the Remuneration Committee, Rhian Davies was appointed a member of the Remuneration Committee and Deborah Waterhouse was appointed a member of the Audit and Risk Committee. Nichola Pease and the Company mutually agreed to waive her six-month notice period and her fee ceased from the date she stepped down.

The benefits for Michael Dobson were private healthcare and medical benefits for him and his family, life assurance and occasional private use of a company car and driver. Benefits for Bruno Schroder were private healthcare and medical benefits. Benefits for Rakhi Goss-Custard were travel and accommodation expenses.

Philip Mallinckrodt received a LTIP award on 7 March 2016, when he was in an executive role on the Board. This LTIP award is expected to vest on 5 March 2020 and the estimated value expected to vest to Philip is £51,000 (see page 102).

Matthew Westerman will join the Board with effect from 9 March 2020. He will be a member of the Audit and Risk Committee and the Nominations Committee. His fees will be set at the same level as for other non-executive Directors.

In July 2019, the Board agreed that the annual fees paid to the Remuneration Committee Chairman would increase to £25,000 with effect from 1 July 2019. This brings that fee into line with the annual fees paid to the Audit and Risk Committee Chairman and the Board felt that this was a better reflection of the responsibilities of and time commitment required by the Remuneration Committee Chairman role. The fees for the other non-executive Directors were not changed.

The structure of non-executive Directors' fees is shown below. Fees are usually reviewed biennially.

	£
Chairman	625,000
Board member <sup>1</sup>	80,000
Senior Independent Director	20,000
Audit and Risk Committee Chairman <sup>2</sup>	25,000
Audit and Risk Committee member	20,000
Nominations Committee Chairman	nil
Nominations Committee member	nil
Remuneration Committee Chairman <sup>2</sup>	25,000
Remuneration Committee member	20,000

1. Bruno Schroder also received an additional annual fee of £28,000 for services to the Group.

2. In addition to the Committee membership fee.

## DAP and LTIP awards granted during 2019 (audited)

The following awards under the DAP were granted to Directors on 11 March 2019 in respect of deferred bonuses for performance during 2018. No further performance conditions need to be met for awards to vest. An upfront fund award cannot be exercised for six months from the date of grant but is not normally subject to forfeiture if the holder leaves the Group. Deferred share awards normally require the participant to remain in employment with the Group for three years after the date of grant to vest in full, or 3.5 years for a deferred fund award. DAP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds, granted as nil-cost options. DAP share awards are conditional rights to receive Schroders shares, granted as nil-cost options. These awards were included in the 2018 single total remuneration figures disclosed last year and form part of the prior year value shown in this year's single total remuneration figures on page 96. They are also shown in the tables of Directors' rights under fund and share awards on pages 105 and 106.

Individual	Basis of DAP award granted	Face value at grant (£'000)				Share price at grant	Number of shares	Performance conditions
		Upfront fund awards	Deferred share awards	Deferred fund awards	Total DAP award			
Peter Harrison	Deferral of bonus awarded for performance in 2018	1,272	1,815	1,815	4,902	£25.41	71,428	Awarded for performance in 2018. No further performance conditions apply.
Richard Keers		545	755	755	2,055	£25.41	29,712	

The following awards under the LTIP were granted to Directors on 11 March 2019 as nil-cost options. These awards do not appear in the single total remuneration figure on page 96 as they are subject to performance conditions and will not vest until 2023, after which they will be subject to a further 12-month holding period. They are shown in the table of Directors' rights under share awards on page 106.

Individual	Basis of LTIP award granted	Face value at grant (£'000)	Vesting maximum as % of face value	% of face value that would vest at threshold <sup>1</sup>	Share price at grant	Number of shares	End of performance period
Peter Harrison	A specified face value of shares on the date of grant	600	100	25	£25.41	23,612	31 December 2022
Richard Keers		400	100	25	£25.41	15,741	31 December 2022

1. Percentage of face value that would vest if performance under both the EPS and NNB performance measures was at the threshold level to achieve non-zero vesting.

All DAP share awards and LTIP awards were granted over ordinary shares. The number of shares under each DAP share award and LTIP award is determined by dividing the grant-date face value by the mid-market closing share price on the last trading day prior to the date of grant.

Vesting of LTIP awards granted during 2019 is subject to the same performance conditions as applied to awards expected to vest following the end of 2019, which are set out on page 101, save that the composite index against which EPS performance will be measured for these awards is as follows:

Index	Weighting %
MSCI All Countries Asia Pacific	17.5
MSCI All Countries World	15.0
MSCI Emerging Markets	7.5
MSCI Europe	5.0
FTSE All Share	5.0
Barclays Capital Global Aggregate	50.0

## Payments to former Directors (audited)

No payments were made to former Directors during 2019, including any payments for loss of office.



## Personal shareholding policy (audited)

To align the interests of senior management with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary or, in the case of the Group Chief Executive, 500% of base salary. Each executive Director and GMC member undertakes not to sell any Schroders shares until their share ownership target has been reached, subject to some limited exceptions. The executive Directors' service contracts provide that, on stepping down as an executive Director, the level of shareholding required while an executive Director must be maintained for a further two years, or the actual level of shareholding on stepping down if lower.

For the purposes of the personal shareholding policy (see page 86), rights to shares include the estimated after-tax value of unvested deferred share awards under the DAP or previous incentive plans (shown as "Other unvested share awards" on page 106) and of vested DAP or LTIP awards (shown as "Vested but unexercised share awards" on page 106) but do not include unvested LTIP awards as these rights to shares are subject to performance conditions.

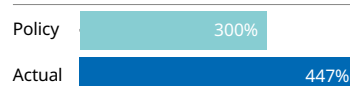
The charts below compare the value of each executive Director's shareholdings as at 3 March 2020 with the shareholding required under the personal shareholding policy, as a percentage of salary, including the LTIP awards expected to vest on 5 March 2020 (see page 102) and DAP deferred share awards to be granted in respect of performance in 2019 (see page 101).

### Value of shareholding vs. shareholding policy (% of salary)

#### Group Chief Executive Peter Harrison



#### Chief Financial Officer Richard Keers



### Executive Directors' alignment to share price

The table below shows the number of shares currently owned by each executive Director, the number of shares over which they have been granted rights under the Group's incentive plans and the estimated after-tax value of those shares, on the same basis as outlined above.

Individual	Shares owned	Rights to shares	Total share exposure	Estimated after tax value (£'000)				
				On 3 March 2019	On 3 March 2020	Difference	Rights to shares to be granted in March 2020	Impact of a 10% share price movement
Peter Harrison	721	196,714	197,435	2,923	3,072	149	883	395
Richard Keers	713	83,608	84,321	1,254	1,317	64	360	168

## Directors' rights under fund and share awards, and Directors' share interests

This section outlines Directors' rights during 2019 from fund and share awards granted under the Group's incentive plans. It goes on to set out the total interests in shares of the Directors and their connected persons at 31 December 2019.

### Directors' rights under fund awards (audited)

Directors had the following rights under fund awards granted under the Group's incentive plans, based on the award values at grant.

		Unvested fund awards £'000	Vested fund awards £'000	Total £'000
Peter Harrison	At 31 December 2018	4,238	–	4,238
	Granted	1,815	1,272	3,087
	Vested	(1,613)	1,613	–
	Exercised	–	(2,885)	(2,885)
	<b>At 31 December 2019</b>	<b>4,440</b>	<b>–</b>	<b>4,440</b>
Richard Keers	At 31 December 2018	1,969	–	1,969
	Granted	755	545	1,300
	Vested	(842)	842	–
	Exercised	–	(1,120)	(1,120)
	<b>At 31 December 2019</b>	<b>1,882</b>	<b>267</b>	<b>2,149</b>
Michael Dobson	At 31 December 2018	1,925	1,675	3,600
	Vested	(1,925)	1,925	–
	Exercised	–	(3,600)	(3,600)
	<b>At 31 December 2019</b>	<b>–</b>	<b>–</b>	<b>–</b>
Philip Mallinckrodt	At 31 December 2018	875	–	875
	Vested	(456)	456	–
	<b>At 31 December 2019</b>	<b>419</b>	<b>456</b>	<b>875</b>

**Directors' rights under share awards (audited)**

Directors had the following rights to shares under the Group's incentive plans, in the form of nil-cost options, based on the number of shares in each case.

		Unvested LTIP awards <sup>1</sup>	Other unvested share awards <sup>2</sup>	Vested but unexercised share awards	Total
Peter Harrison (Ordinary shares)	At 31 December 2018	78,094	147,049	58,790	283,933
	Granted	23,612	71,428	–	95,040
	Dividend-equivalent accrual	–	5,907	918	6,825
	Vested	–	(60,720)	60,720	–
	Lapsed where LTIP conditions were not met	(25,388)	–	–	(25,388)
	Exercised	–	–	(94,999)	(94,999)
	<b>At 31 December 2019</b>	<b>76,318</b>	<b>163,664</b>	<b>25,429</b>	<b>265,411</b>
Richard Keers (Ordinary shares)	At 31 December 2018	49,102	69,549	19,167	137,818
	Granted	15,741	29,712	–	45,453
	Dividend-equivalent accrual	–	2,812	489	3,301
	Vested	–	(32,428)	32,428	–
	Lapsed where LTIP conditions were not met	(12,694)	–	–	(12,694)
	Exercised	–	–	(43,837)	(43,837)
	<b>At 31 December 2019</b>	<b>52,149</b>	<b>69,645</b>	<b>8,247</b>	<b>130,041</b>
Michael Dobson (Ordinary shares)	At 31 December 2018	7,933	80,957	311,299	400,189
	Dividend-equivalent accrual	–	–	10,000	10,000
	Vested	–	(80,957)	80,957	–
	Lapsed where LTIP conditions were not met	(7,933)	–	–	(7,933)
	Exercised	–	–	(402,256)	(402,256)
	<b>At 31 December 2019</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Philip Mallinckrodt (Non-voting ordinary shares)	At 31 December 2018	13,212	45,874	31,699	90,785
	Dividend-equivalent accrual	–	984	1,241	2,225
	Vested	–	(25,586)	25,586	–
	Lapsed where LTIP conditions were not met	(8,960)	–	–	(8,960)
	Exercised	–	–	(31,699)	(31,699)
	<b>At 31 December 2019</b>	<b>4,252</b>	<b>21,272</b>	<b>26,827</b>	<b>52,351</b>

1. These awards will only vest to the extent that the relevant performance conditions are met. Includes LTIP awards granted on 7 March 2016, which were unvested as at 31 December 2019. These awards are expected to partially vest on 5 March 2020 (see pages 101 and 102) and any balance will lapse.

2. No performance conditions apply for these awards. As well as awards granted under the DAP, this includes awards granted under the Equity Compensation Plan, which was used for deferred bonus awards granted to the executive Directors until 2018, and the Equity Incentive Plan (EIP), used very selectively in the past to reward high potential employees and sustained high performance. Although executive Directors were not eligible to receive EIP awards, Peter Harrison received an EIP award in December 2013, prior to his appointment as an executive Director in May 2014.

During 2019, the aggregate gain on nil-cost options for the Directors, which were settled in shares, was as follows:

- Peter Harrison received £2,591,000 from exercising nil-cost options over 94,999 ordinary shares, granted as part of his annual bonus awards for performance in 2014, 2015 and 2017.
- Richard Keers received £1,341,000 from exercising nil-cost options over 43,837 ordinary shares, granted as part of his annual bonus awards for performance in 2014 and 2015.
- Michael Dobson received £12,348,000 from exercising awards over 402,256 ordinary shares, granted as part of his annual bonus awards for performance in 2010 and in 2012 to 2015, when he was Group Chief Executive.
- Philip Mallinckrodt received £629,000 from exercising awards over 31,699 non-voting ordinary shares, granted as part of his annual bonus award for performance in 2014 and the vested element of the LTIP award granted in 2014, when he was an executive Director.

## Directors' share interests (audited)

The Directors and their connected persons had the following interests in shares in the Company.

	Number of shares at 31 December 2019	
	Ordinary shares	Non-voting ordinary shares
<b>Executive Directors</b>		
Peter Harrison	706	–
Richard Keers	698	–
<b>Non-executive Directors</b>		
Michael Dobson	79,965	196,165
Sir Damon Buffini	–	5,000
Rhian Davies <sup>1</sup>	79	1,000
Rakhi Goss-Custard	669	–
Ian King	–	2,641
Philip Mallinckrodt <sup>2</sup>	80,985,757	6,363,370
Leonie Schroder <sup>2</sup>	84,313,924	7,671,700
Deborah Waterhouse	–	–
<b>Former Directors</b>		
Robin Buchanan <sup>3</sup>	–	9,839
Nichola Pease <sup>4</sup>	176	951
Bruno Schroder <sup>5</sup>	13,881,416	1,482,417

1. The interests of Rhian Davies include 79 ordinary shares held by a connected person as at 18 August 2019, the date that he ceased to be a connected person.
2. The interests of Philip Mallinckrodt and Leonie Schroder include their personal holdings and the beneficial interests held by them and their connected persons in their capacity as members of a class of potential beneficiaries under certain settlements made by members of the Schroder family.
3. The interests of Robin Buchanan refer to the position as at 2 May 2019, the date he stepped down as a Director of the Company.
4. The interests of Nichola Pease refer to the position as at 6 November 2019, the date she ceased to be a Director of the Company, and include 176 ordinary shares held by a connected person as at that date.
5. The interests of Bruno Schroder refer to the position as at his death on 20 February 2019. They include his personal holdings and beneficial interests that were held by him and his connected persons in their capacity as members of a class of potential beneficiaries under certain settlements made by members of the Schroder family.

Between 31 December 2019 and 3 March 2020, the only movements in the Directors' share interests were the acquisition under the SIP of 15 ordinary shares by Peter Harrison and 15 ordinary shares by Richard Keers.

## Conduct, compliance and risk management in remuneration

Schroders' core values are excellence, innovation, teamwork, passion and integrity. We expand on these in our guiding principles to more clearly articulate the behaviours that we expect from our employees. Pages 28 to 33 provide more information on key elements of our people strategy.

Performance management and remuneration are important tools to reinforce expected standards of behaviour. During the annual performance appraisal, line managers assess each employee's behaviours, to identify those whose behaviour exemplifies our values as well as any employees whose behaviour falls short of the standards that we expect. To drive positive change and reinforce those behavioural expectations, we also operate a global employee recognition scheme, which provides an opportunity to recognise those who champion our values.

The Group's control functions independently review potential conduct or cultural issues to identify any instances where performance or behaviours have fallen short of our expectations. Any issues identified in this way are fed into the performance appraisal and compensation review processes. This provides a further opportunity to reflect attitudes to risk and compliance and behaviours in line with our values in the determination or allocation of the bonus pool and in individual employee performance ratings and remuneration outcomes.

We identify employees whose professional activities can have a particular risk impact on the Group, or on certain regulated subsidiaries. Our approach to identifying these MRTs takes account of the different regulatory requirements and guidance that apply across the Group. Our MRTs are subject to enhanced scrutiny and oversight, including enhanced control function oversight of their activities and direct oversight of their remuneration by the Committee. Some MRTs, specifically those identified under the UCITS Directive or AIFMD, are subject to higher levels of bonus deferral and a higher proportion of remuneration in fund awards, creating greater alignment with shareholders and clients.

To ensure the Remuneration Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Audit and Risk Committee serves on the Remuneration Committee. The Remuneration Committee also receives reports from the Heads of Compliance, Legal, Risk and Internal Audit as part of its consideration of remuneration proposals.

The Committee reviewed the Group's regulatory disclosures in the context of the applicable FCA and PRA requirements. The remuneration disclosures required under the Capital Requirements Directive are incorporated into the Group's Pillar 3 disclosures and are available at [schroders.com/ir](https://www.schroders.com/ir). Other regulatory remuneration disclosures can be found at [schroders.com/remuneration-disclosures](https://www.schroders.com/remuneration-disclosures).

## Priorities for 2020

As well as considering the standing items of business, the Committee will also focus on the following areas during 2020:

- Regulatory developments and the potential impact on the structure of remuneration at Schroders
- Carried interest-sharing arrangements
- Remuneration Committee effectiveness and best practice.

## Implementation of the remuneration policy for 2020

Shareholders will be asked to approve the new Directors' remuneration policy (pages 82 to 92) at the 2020 AGM.

### Executive Directors' salaries

The Committee did not increase the executive Directors' salaries during the 2019 compensation review, which are £500,000 for the Group Chief Executive and £375,000 for the Chief Financial Officer.

### Basis for determining executive Directors' annual bonus awards for performance in 2020

The Committee will determine executive Directors' bonuses for performance in 2020 based on an annual bonus scorecard across a range of metrics. In considering the metrics and the range of targets for each metric, the Committee takes into account the recommendation of the Group Chairman and Group Chief Executive, the Board-approved budget, market expectations, prior-year achievement, strategic priorities and the wider economic landscape.

In line with the proposed new Directors' remuneration policy, financial performance factors make up 70% of the scorecard. The remaining 30% of the scorecard is based on a combination of non-financial factors, namely strategic progress, sustainability, people and talent, risk and conduct and each executive Director's individual objectives for the year.

The table below sets out the annual bonus scorecard metrics and weightings for 2020. The rationale for selecting these metrics is set out on page 74.

Annual bonus scorecard metrics	Weighting
<b>Financial</b>	<b>70%, of which</b>
Profit before tax and exceptional items	35%
Client investment performance over 3 and 5 years	20%
Annual net new business	15%
<b>Non-financial</b>	<b>30%</b>
Strategic progress	
Sustainability	
People and talent	
Risk and conduct	
Individual performance objectives for each executive Director	

The Committee has adopted a robust process for setting targets, in light of budgeted performance, prior-year actual performance and the Group's strategic plans. The Committee and the Board assess subjectively how achievable the budget is as part of the Committee's work to ensure that targets are appropriately stretching. Targets are commercially sensitive and so the target range and the actual performance achieved for each metric will be disclosed retrospectively in the Annual report on remuneration in respect of 2020, together with commentary for the non-financial factors.

The Committee may apply discretion to adjust annual bonus awards to the extent it judges that the results of the annual bonus scorecard do not align with results achieved, or in light of unexpected or unforeseen circumstances. In assessing profit performance, the Committee will consider the impact of exceptional items during the period and will have the discretion to make adjustments as appropriate.

The Committee is able to consider corporate performance on ESG issues when setting remuneration of the executive Directors and is satisfied that the Directors' remuneration policy and its implementation do not raise ESG risks by inadvertently motivating the wrong behaviours in the executive Directors. The annual performance objectives for the Group Chief Executive include goals relating to sustainability and ESG as an asset manager, as well as goals related to the sustainability of Schroders' own business policies and practices.

The intention is for the new DAP, which is being put to shareholders for approval at the 2020 AGM, to be used for the executive Directors' upfront fund awards and deferred share and fund awards in respect of performance in 2020.

### LTIP awards to be granted in 2020

In accordance with the current Directors' remuneration policy, the Committee intends to grant LTIP awards over shares with the following values to the executive Directors in March 2020:

Director	LTIP face value at grant
Peter Harrison	£600,000
Richard Keers	£400,000

These awards will be granted under the current LTIP rules, which were approved by shareholders in 2010.

The vesting of these awards will be based on the same EPS and NNB performance conditions and targets as the awards that are expected to vest on 5 March 2020, outlined on page 101, save that the Committee has updated the weightings of the indices that make up the composite index against which EPS performance will be measured.

The Committee reviewed the make-up of Schroders assets under management at 31 December 2019 to determine the indices and weightings that will make up the composite index, as a proxy for the market movement of Schroders assets under management. For awards to be granted in March 2020, the following weighted basket of indices will be used:

Index	Weighting %
MSCI All Countries Asia Pacific	15
MSCI All Countries World	15
MSCI Emerging Markets	10
MSCI Europe	5
FTSE All Share	5
Barclays Capital Global Aggregate	50

By Order of the Board.

**Sir Damon Buffini**

Chairman of the Remuneration Committee

4 March 2020



## Directors' report

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

- Strategic report
- Board of Directors
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report
- The Statement of Directors' responsibilities.

### Share capital

Schroders has developed under stable ownership for more than 200 years and has been a public company whose ordinary shares have been listed on the London Stock Exchange since 1959. The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. The ordinary shares have a premium listing on the London Stock Exchange and the non-voting ordinary shares have a standard listing on the London Stock Exchange.

226,022,400 ordinary shares (80% of the total issued share capital) were in issue throughout the year. The Company has no authority to issue or buy back any ordinary shares. Each ordinary share carries the right to attend and vote at general meetings of the Company. 56,505,600 non-voting ordinary shares (20% of the total issued share capital) were in issue throughout the year. No shares were held in treasury.

The non-voting ordinary shares were created in 1986 to facilitate the operation of an employee share plan without diluting the voting rights of ordinary shareholders. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not provide the right to attend and vote at general meetings of the Company and that, on a capitalisation issue, they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting ordinary shares were created, the ratio of ordinary shares to non-voting ordinary shares was 4:1. The Company has at times issued non-voting ordinary shares, principally in connection with the Group's employee share plans or as consideration for an acquisition. The Company has not intended and does not intend to increase the issued non-voting ordinary share capital over the medium term and therefore has, at times, bought back non-voting ordinary shares to maintain the 4:1 ratio.

At the 2019 AGM, shareholders renewed the Directors' authority to issue 5,000,000 non-voting ordinary shares in order to provide the Directors with the flexibility to issue non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting

ordinary shares. Shareholders also gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares and gave authority for the disapplication of pre-emption rights in relation to the issue of up to 5,000,000 non-voting ordinary shares. Renewal of these authorities to a maximum of 5,000,000 non-voting ordinary shares, will be sought at the 2020 AGM, which will be held at 11.30 a.m. on 30 April 2020.

Under the terms of the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust, ordinary and non-voting ordinary shares are held on trust on behalf of employee share plan participants. The trustees of these trusts may exercise the voting rights in any way they think fit. In doing so, they may consider the financial and non-financial interests of the beneficiaries and their dependents. As at 3 March 2020, being the latest practicable date before the publication of this Annual Report and Accounts, the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust together held 8,207,904 ordinary shares and 65,670 non-voting ordinary shares.

Under the terms of the Share Incentive Plan, as at 3 March 2020, 745,684 ordinary shares were held in trust on behalf of plan participants. At the participants' direction, the trustees can exercise the voting rights over ordinary shares in respect of participant share entitlements.

There are no restrictions on the transfer of the Company's shares save for:

- Restrictions imposed by laws and regulations;
- Restrictions on the transfer of shares imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case after a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- Restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders that may restrict the transfer of securities or voting rights.

### Substantial shareholdings

The table below shows the holdings of major shareholders in the voting rights of the Company, as at 31 December 2019, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules. There have been no changes to these notifications or additional notifications as at the date of the report.

Member	Class of shares	No. of voting rights held	% of voting rights held
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	39,724,396	17.58
Lindsell Train Limited <sup>3</sup>	Ordinary	22,507,143	9.958
Harris Associates L.P. <sup>3</sup>	Ordinary	11,443,978	5.06

1. Vincitas Limited and Veritas Limited are trustee companies which act as trustees of certain settlements made by members of the Schroder family. Vincitas Limited and Veritas Limited are party to the Relationship Agreement.

2. Flavida Limited and Fervida Limited are protector companies which act as protectors of certain settlements made by members of the Schroder Family. Flavida Limited and Fervida Limited are parties to the Relationship Agreement. Their interests in shares are principally in respect of shares in which Vincitas Limited and Veritas Limited are also interested.

3. Lindsell Train Limited and Harris Associates L.P. are not party to the Relationship Agreement.

## Relationship Agreement

Following changes made to the UK Listing Rules in May 2014, companies with a shareholder or shareholders who could, when acting in concert, exercise 30% or more of the voting rights of a company at a general meeting, are required to enter into a binding agreement with that shareholder or shareholders. This is intended to ensure that the parties to the agreement comply with certain independence provisions as set out in the Listing Rules. Accordingly, on 14 November 2014, the Company entered into such an agreement (the Relationship Agreement) with a number of shareholders who own or control the ordinary shares (and associated voting rights) referred to on page 109.

The Schroder family interests are in shares owned directly or indirectly by trustee companies which act as trustees of various trusts settled by family individuals, in shares owned by family individuals, and in shares owned by a family charity. The trustee holdings include the interests (43.15%) held by Vincitas Limited and Veritas Limited, as disclosed in the table on page 109, and further interests (1.6%) held by two other trustee companies which are not required to be disclosed under the Disclosure Guidance and Transparency Rules.

If aggregated, the total interests covered by the Relationship Agreement including shares held by the trustee companies, individuals and the family charity amount to 108,323,711 of the Company's ordinary shares (47.93%).

In accordance with Listing Rule 9.8.4(14), the Board confirms that for the year ended 31 December 2019:

- the Company has complied with the independence provisions included in the Relationship Agreement; and
- so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by the other parties to the Relationship Agreement and their associates.

## Dividends

The Directors are recommending a final dividend of 79 pence per share, which if approved by shareholders at the AGM, will be paid on 7 May 2020 to shareholders on the register of members at close of business on 27 March 2020. Details on the Company's dividend policy are set out on page 27. 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	2019		2018	
	pence	£m	pence	£m
Interim	35.0	95.8	35.0	95.7
Final*	79.0	216.7	79.0	216.5
Total	114.0	312.5	114.0	312.3

\* Subject to approval by shareholders at the 2020 AGM.

The Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust have waived their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2019 and future periods. See notes 7 and 22 to the financial statements.

## Corporate responsibility

Details of the Company's employment practices, including diversity and employee involvement, can be found in the Strategic report from page 30.

We are committed to minimising the environmental impact of our operations and to delivering continuous improvement in our environmental performance. See page 41 for more details on our total CO<sub>2</sub>e emissions data.

## Indemnities and insurance

At the 2007 AGM, shareholders authorised the Company to provide indemnities to, and to fund defence costs for, Directors in certain circumstances. All Directors, at the time shareholder approval was received, were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that, on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third-party liabilities that they may incur as a result of their service on the Board. All Directors' indemnities were in place during the year and remain in force.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

Under the Trust Deed & Rules of the Schroders Retirement Benefit Scheme (the Scheme), the Company provides a qualifying pension scheme indemnity in line with the Companies Act 2006. The indemnity covers each director of the trustee company that acts as trustee of the Scheme and the provisions have been in force during the financial year.

As part of the integration of Cazenove Capital, the Cazenove Capital Management Limited Pension Scheme was merged with the Schroders Retirement Benefits Scheme, with effect from 31 December 2014. Pursuant to that merger, a qualifying pension scheme indemnity (as defined in section 235 of the Companies Act 2006) provided by Schroders plc for the benefit of the Directors of Cazenove Capital Management Pension Trustee Limited, a subsidiary of the Company, was put in place at that time and remains in force. This indemnity covers, to the extent permitted by law, certain losses or liabilities incurred by the Directors of Cazenove Capital Management Pension Trustee Limited in connection with that company's activities as trustee of the Cazenove Capital Management Limited Pension Scheme.

## Directors' conflicts of interest

The Company has procedures in place to identify, authorise and manage conflicts of interest, including of Directors of the Company, and they have operated effectively during the year. In circumstances where a potential conflict arises, the Board (excluding the Director concerned) will consider the situation and either authorise the arrangement in accordance with the Companies Act 2006 and the Company's Articles of Association, or take other appropriate action.

All potential conflicts authorised by the Board are recorded in a conflicts register, which is maintained by the Company Secretary and reviewed by the Board on an annual basis. Directors have a continuing duty to update the Board with any changes to their conflicts of interest.

## Change of control

The Company does not consider that it has any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid that are required to be disclosed pursuant to paragraph 13(2) (j) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) other than as disclosed below:

Under the Group's Revolving Credit Facility Agreement, if a change of control of the Company occurs, the lenders are not obliged to provide further funding under the facility. The Company and lenders have up to 30 days to agree the continued use of the facility. If there is no agreement, repayment of the facility and accrued interest may be requested by the lenders with not less than 10 days' notice.

Under the Amended and Restated Framework Agreement (Framework Agreement) with Lloyds Banking Group plc (LBG) signed on 3 October 2019 in relation to the strategic partnership announced on 23 October 2018, a change of control of the Company to: (1) either a material competitor of an LBG business or (2) an entity or

person on, or controlled by an entity or person on, a recognised sanctions list or located in a specified jurisdiction, LBG may terminate the Framework Agreement. Such termination provisions provide for LBG and the Company to return to the status quo prior to establishing the strategic partnership in relation to shareholdings in subsidiary entities, with any implementing transactions conducted at specified valuations.

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's employee share schemes may cause awards granted to employees under such schemes to vest on a change of control.

### Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2018: 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 110
(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 110, 127 and 152
(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 110

### 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 51.

By Order of the Board.

### Graham Staples

Company Secretary

4 March 2020

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under the Companies Act 2006, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make estimates and judgements that are reasonable and prudent.
- State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FCA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and the Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' statement

Each of the Directors, whose name and functions are listed in the Board of Directors section of this Annual Report and Accounts, confirms that, to the best of each person's knowledge and belief:

The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group.

The Directors' report contained in this Annual Report and Accounts which comprises the sections described on page 109, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face.

So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

The Director has taken all the steps that ought to have been taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In addition, each of the Directors considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the audited financial information on the website at [schroders.com](http://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.



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# Consolidated income statement

for the year ended 31 December 2019

	Notes	2019			2018		
		Before exceptional items £m	Exceptional items <sup>2</sup> £m	Total £m	Before exceptional items £m	Exceptional items <sup>2</sup> £m	Total £m
Revenue		2,537.0	–	2,537.0	2,626.4	–	2,626.4
Cost of sales		(484.6)	–	(484.6)	(555.7)	–	(555.7)
<b>Net operating revenue</b>	2	<b>2,052.4</b>	<b>–</b>	<b>2,052.4</b>	<b>2,070.7</b>	<b>–</b>	<b>2,070.7</b>
Net gain on financial instruments and other income	3	41.9	1.1	43.0	33.3	(13.0)	20.3
Share of profit of associates and joint ventures	10	30.5	(3.3)	27.2	19.9	(0.8)	19.1
<b>Net income</b>		<b>2,124.8</b>	<b>(2.2)</b>	<b>2,122.6</b>	<b>2,123.9</b>	<b>(13.8)</b>	<b>2,110.1</b>
Operating expenses	4	(1,423.6)	(74.4)	(1,498.0)	(1,362.7)	(97.5)	(1,460.2)
<b>Profit before tax</b>		<b>701.2</b>	<b>(76.6)</b>	<b>624.6</b>	<b>761.2</b>	<b>(111.3)</b>	<b>649.9</b>
Tax	5(a)	(140.5)	11.6	(128.9)	(163.3)	18.1	(145.2)
<b>Profit after tax<sup>1</sup></b>		<b>560.7</b>	<b>(65.0)</b>	<b>495.7</b>	<b>597.9</b>	<b>(93.2)</b>	<b>504.7</b>
<b>Earnings per share</b>							
Basic	6	<b>201.6p</b>	<b>(22.7)p</b>	<b>178.9p</b>	<b>215.8p</b>	<b>(32.7)p</b>	<b>183.1p</b>
Diluted	6	<b>198.0p</b>	<b>(22.2)p</b>	<b>175.8p</b>	<b>211.8p</b>	<b>(32.1)p</b>	<b>179.7p</b>
<b>Total dividend per share</b>	7			<b>114.0p</b>			<b>114.0p</b>

# Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
<b>Profit after tax</b>		<b>495.7</b>	<b>504.7</b>
<b>Items that may or have been reclassified to the income statement:</b>			
Net exchange differences on translation of foreign operations after hedging		(56.0)	31.0
Net gain/(loss) on financial assets at fair value through other comprehensive income	3	6.3	(5.9)
Tax on items taken directly to other comprehensive income	5(b)	(0.4)	(0.7)
		<b>(50.1)</b>	<b>24.4</b>
<b>Items that will not be reclassified to the income statement:</b>			
Net actuarial loss on defined benefit pension schemes	25	(23.2)	(11.6)
Tax on items taken directly to other comprehensive income	5(b)	4.0	2.0
		<b>(19.2)</b>	<b>(9.6)</b>
<b>Other comprehensive income for the year, net of tax<sup>1</sup></b>		<b>(69.3)</b>	<b>14.8</b>
<b>Total comprehensive income for the year<sup>1</sup></b>		<b>426.4</b>	<b>519.5</b>

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.

2. See note 1(b) for a definition and further details of exceptional items.

# Consolidated statement of financial position

at 31 December 2019

	Notes	2019 £m	2018 £m
<b>Assets</b>			
Cash and cash equivalents		2,660.3	2,683.4
Trade and other receivables	8	806.7	748.9
Financial assets	9	3,016.4	3,354.9
Associates and joint ventures	10	398.0	175.2
Property, plant and equipment	11, 12	652.3	249.4
Goodwill and intangible assets	13	1,133.4	968.2
Deferred tax	14	36.9	42.8
Retirement benefit scheme surplus	25	136.3	155.6
		<b>8,840.3</b>	<b>8,378.4</b>
<b>Assets backing unit-linked liabilities</b>			
Cash and cash equivalents		972.6	598.2
Financial assets		11,453.3	10,657.7
	15	<b>12,425.9</b>	<b>11,255.9</b>
<b>Total assets</b>		<b>21,266.2</b>	<b>19,634.3</b>
<b>Liabilities</b>			
Trade and other payables	16	921.7	988.6
Financial liabilities	17	3,531.1	3,660.6
Lease liabilities	12	425.3	–
Current tax		54.1	44.2
Provisions	18	32.2	31.4
Deferred tax	14	16.2	15.1
Retirement benefit scheme deficits		12.2	17.3
		<b>4,992.8</b>	<b>4,757.2</b>
<b>Unit-linked liabilities</b>	15	<b>12,425.9</b>	<b>11,255.9</b>
<b>Total liabilities</b>		<b>17,418.7</b>	<b>16,013.1</b>
<b>Net assets</b>		<b>3,847.5</b>	<b>3,621.2</b>
<b>Total equity<sup>1</sup></b>		<b>3,847.5</b>	<b>3,621.2</b>

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.

The financial statements were approved by the Board of Directors on 4 March 2020 and signed on its behalf by:

**Richard Keers**

Director

# Consolidated statement of changes in equity

for the year ended 31 December 2019

	Notes	Attributable to owners of the parent							Non-controlling interest £m	Total equity £m
		Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m		
<b>At 1 January 2019</b>		282.5	124.2	(163.9)	184.4	83.1	3,108.2	3,618.5	2.7	3,621.2
Restatement on adoption of IFRS 16 <sup>1</sup>		–	–	–	–	–	(6.9)	(6.9)	–	(6.9)
<b>At 1 January 2019 (restated)</b>		<b>282.5</b>	<b>124.2</b>	<b>(163.9)</b>	<b>184.4</b>	<b>83.1</b>	<b>3,101.3</b>	<b>3,611.6</b>	<b>2.7</b>	<b>3,614.3</b>
Profit for the year		–	–	–	–	27.2	466.9	494.1	1.6	495.7
Other comprehensive income <sup>2</sup>		–	–	–	(56.0)	–	(13.3)	(69.3)	–	(69.3)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(56.0)</b>	<b>27.2</b>	<b>453.6</b>	<b>424.8</b>	<b>1.6</b>	<b>426.4</b>
Own shares purchased	22	–	–	(81.0)	–	–	–	(81.0)	–	(81.0)
Share-based payments	26	–	–	–	–	–	61.6	61.6	–	61.6
Tax in respect of share schemes	5(c)	–	–	–	–	–	5.2	5.2	–	5.2
Movements in ownership interests in subsidiaries <sup>3</sup>		–	–	–	–	–	127.3	127.3	48.4	175.7
Other movements <sup>4</sup>		–	–	–	–	(0.7)	(55.6)	(56.3)	16.3	(40.0)
Dividends	7	–	–	–	–	–	(312.3)	(312.3)	(2.4)	(314.7)
<b>Transactions with shareholders</b>		<b>–</b>	<b>–</b>	<b>(81.0)</b>	<b>–</b>	<b>(0.7)</b>	<b>(173.8)</b>	<b>(255.5)</b>	<b>62.3</b>	<b>(193.2)</b>
<b>Transfers</b>		<b>–</b>	<b>–</b>	<b>75.8</b>	<b>–</b>	<b>(3.5)</b>	<b>(72.3)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>At 31 December 2019</b>		<b>282.5</b>	<b>124.2</b>	<b>(169.1)</b>	<b>128.4</b>	<b>106.1</b>	<b>3,308.8</b>	<b>3,780.9</b>	<b>66.6</b>	<b>3,847.5</b>

	Notes	Attributable to owners of the parent							Non-controlling interest £m	Total equity £m
		Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m		
<b>At 1 January 2018</b>		282.5	124.2	(162.3)	153.4	65.8	2,995.1	3,458.7	12.3	3,471.0
Restatement on adoption of IFRS 9 and IFRS 15		–	–	–	–	–	(18.5)	(18.5)	–	(18.5)
<b>At 1 January 2018 (restated)</b>		<b>282.5</b>	<b>124.2</b>	<b>(162.3)</b>	<b>153.4</b>	<b>65.8</b>	<b>2,976.6</b>	<b>3,440.2</b>	<b>12.3</b>	<b>3,452.5</b>
Profit for the year		–	–	–	–	19.1	485.9	505.0	(0.3)	504.7
Other comprehensive income <sup>2</sup>		–	–	–	31.0	–	(16.2)	14.8	–	14.8
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>31.0</b>	<b>19.1</b>	<b>469.7</b>	<b>519.8</b>	<b>(0.3)</b>	<b>519.5</b>
Own shares purchased	22	–	–	(74.9)	–	–	–	(74.9)	–	(74.9)
Share-based payments	26	–	–	–	–	–	63.9	63.9	–	63.9
Tax in respect of share schemes	5(c)	–	–	–	–	–	(3.3)	(3.3)	–	(3.3)
Other movements		–	–	–	–	0.5	(16.0)	(15.5)	(7.9)	(23.4)
Dividends	7	–	–	–	–	–	(311.7)	(311.7)	(1.4)	(313.1)
<b>Transactions with shareholders</b>		<b>–</b>	<b>–</b>	<b>(74.9)</b>	<b>–</b>	<b>0.5</b>	<b>(267.1)</b>	<b>(341.5)</b>	<b>(9.3)</b>	<b>(350.8)</b>
<b>Transfers</b>		<b>–</b>	<b>–</b>	<b>73.3</b>	<b>–</b>	<b>(2.3)</b>	<b>(71.0)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>At 31 December 2018</b>		<b>282.5</b>	<b>124.2</b>	<b>(163.9)</b>	<b>184.4</b>	<b>83.1</b>	<b>3,108.2</b>	<b>3,618.5</b>	<b>2.7</b>	<b>3,621.2</b>

1. The adoption of IFRS 16 reduced the Group's equity by £6.9 million, see Presentation of the financial statements on page 167.

2. Other comprehensive income reported in the net exchange differences reserve comprises the net foreign exchange (loss)/gain on the translation of foreign operations net of hedging. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial loss on the Group's retirement benefit scheme surplus and post-tax fair value movements on financial assets at fair value through other comprehensive income.

3. Movements in ownership interests in subsidiaries principally relates to a gain of £153.6 million on the sale of a 19.9% interest in the Group's UK Wealth Management business (see note 10).

4. Other movements principally comprises amounts relating to the acquisition of BlueOrchard Finance AG (see note 29), including an option to acquire the remaining interest currently held by third parties.



# Consolidated cash flow statement

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
<b>Net cash from operating activities</b>	23	<b>1,002.0</b>	<b>513.9</b>
<b>Cash flows from investing activities</b>			
Net acquisition of businesses, associates and joint ventures		(152.4)	(131.8)
Net acquisition of property, plant and equipment and intangible assets		(142.9)	(204.1)
Acquisition of financial assets		(1,730.2)	(2,241.3)
Disposal of financial assets		1,841.2	2,143.7
Non-banking interest received		22.5	27.8
Distributions received from associates and joint ventures	10	3.5	3.1
<b>Net cash used in investing activities</b>		<b>(158.3)</b>	<b>(402.6)</b>
<b>Cash flows from financing activities</b>			
Purchase of subsidiary shares		(44.3)	–
Lease payments	12	(26.5)	–
Acquisition of own shares	22	(81.0)	(74.9)
Dividends paid	7	(314.7)	(313.1)
Other flows		(0.5)	(0.7)
<b>Net cash used in financing activities</b>		<b>(467.0)</b>	<b>(388.7)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>376.7</b>	<b>(277.4)</b>
Opening cash and cash equivalents		3,281.6	3,519.5
Net increase/(decrease) in cash and cash equivalents		376.7	(277.4)
Effect of exchange rate changes		(25.4)	39.5
<b>Closing cash and cash equivalents</b>		<b>3,632.9</b>	<b>3,281.6</b>
<b>Closing cash and cash equivalents consists of:</b>			
Cash and cash equivalents available for use by the Group		2,578.4	2,650.3
Cash held in consolidated pooled investment vehicles		81.9	33.1
<b>Cash and cash equivalents presented within assets</b>		<b>2,660.3</b>	<b>2,683.4</b>
Cash and cash equivalents presented within assets backing unit-linked liabilities		972.6	598.2
<b>Closing cash and cash equivalents</b>		<b>3,632.9</b>	<b>3,281.6</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. The Asset Management segment principally comprises investment management including advisory services in respect of equity, fixed income, multi-asset solutions and private assets and alternatives products. The Wealth Management segment principally comprises investment management, wealth planning and financial advice, platform services and banking services. The Group segment principally comprises the Group's investment capital and treasury management activities, corporate development and strategy activities and the management costs associated with governance and corporate management.

Segmental information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision maker, the Group Chief Executive. Following the acquisition of a 49.9% interest in Scottish Widows Schroder Wealth Holdings Limited, a joint venture with Lloyds Banking Group plc (LBG) that trades as Schroders Personal Wealth (SPW), the Wealth Management segment now includes the Group's proportional share of the income and expenses of SPW on an individual account line basis. This reflects the basis on which the Group monitors the performance of the business. The adjustment column re-presents the results of SPW on a post-tax basis within share of profit of associates and joint ventures in accordance with the accounting rules.

Operating expenses includes an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in respect of particular business areas. This allocation provides management with the relevant information as to the business performance to effectively manage and control expenditure.

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
Revenue	2,217.9	334.0	–	2,551.9	(14.9)	2,537.0
Cost of sales	(454.8)	(31.9)	–	(486.7)	2.1	(484.6)
<b>Net operating revenue</b>	<b>1,763.1</b>	<b>302.1</b>	<b>–</b>	<b>2,065.2</b>	<b>(12.8)</b>	<b>2,052.4</b>
Net gain on financial instruments and other income	(5.4)	6.5	40.8	41.9	–	41.9
Share of profit of associates and joint ventures	23.5	1.0	4.1	28.6	1.9	30.5
<b>Net income</b>	<b>1,781.2</b>	<b>309.6</b>	<b>44.9</b>	<b>2,135.7</b>	<b>(10.9)</b>	<b>2,124.8</b>
Operating expenses	(1,174.3)	(222.1)	(38.1)	(1,434.5)	10.9	(1,423.6)
<b>Profit before tax and exceptional items</b>	<b>606.9</b>	<b>87.5</b>	<b>6.8</b>	<b>701.2</b>	<b>–</b>	<b>701.2</b>

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Revenue	2,317.6	308.8	–	2,626.4
Cost of sales	(528.8)	(26.9)	–	(555.7)
<b>Net operating revenue</b>	<b>1,788.8</b>	<b>281.9</b>	<b>–</b>	<b>2,070.7</b>
Net gain on financial instruments and other income	(3.3)	7.5	29.1	33.3
Share of profit of associates and joint ventures	15.7	0.4	3.8	19.9
<b>Net income</b>	<b>1,801.2</b>	<b>289.8</b>	<b>32.9</b>	<b>2,123.9</b>
Operating expenses	(1,130.4)	(196.4)	(35.9)	(1,362.7)
<b>Profit before tax and exceptional items</b>	<b>670.8</b>	<b>93.4</b>	<b>(3.0)</b>	<b>761.2</b>

Segment assets and liabilities are not required to be presented as such information is not presented on a regular basis to the Group's chief operating decision maker.

## 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 items arising from acquisitions undertaken by the Group, including amortisation of acquired intangible assets, and the cost reduction programmes undertaken in 2018 and 2019.

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
<b>Profit before tax and exceptional items</b>	<b>606.9</b>	<b>87.5</b>	<b>6.8</b>	<b>701.2</b>	<b>-</b>	<b>701.2</b>
<b>Exceptional items presented within net income:</b>						
Net gain on financial instruments and other income	1.1	-	-	1.1	-	1.1
Associates and joint ventures amortisation of acquired intangible assets and other costs	-	(3.3)	-	(3.3)	-	(3.3)
	<b>1.1</b>	<b>(3.3)</b>	<b>-</b>	<b>(2.2)</b>	<b>-</b>	<b>(2.2)</b>
<b>Exceptional items presented within operating expenses:</b>						
Amortisation of acquired intangible assets	(9.1)	(20.9)	-	(30.0)	-	(30.0)
Cost reduction programme	(22.3)	(5.7)	(1.0)	(29.0)	-	(29.0)
Other expenses	(11.1)	(4.7)	0.4	(15.4)	-	(15.4)
	<b>(42.5)</b>	<b>(31.3)</b>	<b>(0.6)</b>	<b>(74.4)</b>	<b>-</b>	<b>(74.4)</b>
<b>Profit before tax and after exceptional items</b>	<b>565.5</b>	<b>52.9</b>	<b>6.2</b>	<b>624.6</b>	<b>-</b>	<b>624.6</b>

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Profit before tax and exceptional items</b>	<b>670.8</b>	<b>93.4</b>	<b>(3.0)</b>	<b>761.2</b>
<b>Exceptional items presented within net income:</b>				
Net gain on financial instruments and other income	(12.9)	-	(0.1)	(13.0)
Amortisation of acquired intangible assets relating to associates and joint ventures	-	(0.8)	-	(0.8)
	<b>(12.9)</b>	<b>(0.8)</b>	<b>(0.1)</b>	<b>(13.8)</b>
<b>Exceptional items presented within operating expenses:</b>				
Cost reduction programme	(55.6)	(0.4)	-	(56.0)
Amortisation of acquired intangible assets	(8.6)	(20.2)	-	(28.8)
Other expenses	(5.5)	(4.0)	(3.2)	(12.7)
	<b>(69.7)</b>	<b>(24.6)</b>	<b>(3.2)</b>	<b>(97.5)</b>
<b>Profit before tax and after exceptional items</b>	<b>588.2</b>	<b>68.0</b>	<b>(6.3)</b>	<b>649.9</b>

### (c) Geographical information

The Group's non-current assets<sup>1</sup> are located in the following countries:

Country	2019 £m	2018 £m
United Kingdom	1,411.7	852.7
Switzerland	272.2	168.2
United States	122.6	70.6
China	118.2	104.4
France	85.0	82.3
Singapore	57.1	33.0
Other	117.0	81.7
<b>Total</b>	<b>2,183.8</b>	<b>1,392.9</b>

1. Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

# Notes to the accounts continued

## 1. Segmental reporting continued

### (d) Non-cash items

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
<b>Operating expenses include the following non-cash items:</b>						
Share-based payments	(53.4)	(4.6)	(3.6)	(61.6)	–	(61.6)
Depreciation and amortisation	(111.1)	(27.0)	(0.6)	(138.7)	–	(138.7)

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
<b>Operating expenses include the following non-cash items:</b>				
Share-based payments		(56.9)	(4.4)	(63.9)
Depreciation and amortisation		(57.2)	(23.1)	(80.8)

Where applicable, exceptional items are included in the non-cash items presented above.

## 2. Net operating revenue

### Revenue

The Group's primary source of revenue is fee income from investment management activities performed within both the Asset Management and Wealth Management segments. Fee income includes management fees, performance fees, carried interest and other fees. Revenue also includes interest income earned within the Wealth Management segment.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. Management fees are recognised as the service is provided and it is probable that the fee will be collected.

Performance fees and carried interest are earned from some arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised where there is deemed to be a low probability of a significant reversal in future periods. Performance fees are typically earned over one year and are recognised at the end of the performance period. Carried interest is earned over a longer time frame and is recognised when the performance obligations are expected to be met and it is highly probable that a significant reversal will not occur. This may result in the recognition of revenue before the contractual crystallisation date.

Other fees principally comprise revenues for other services, which are typically driven by levels of AUM, along with revenues that vary according to the volume of transactions. Other fees are recognised as the relevant service is provided and it is probable that the fee will be collected.

Within Wealth Management, earning a net interest margin is a core activity. Interest income earned as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients, and holding debt and other fixed income securities is recognised within revenue. Interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

### Cost of sales

Fee expenses incurred by the Group that relate directly to revenue are presented as cost of sales. These expenses include commissions, external fund manager fees and distribution fees payable to financial institutions, investment platform providers and financial advisers that distribute the Group's products.

Fee expense is generally based on an agreed percentage of the valuation of AUM and is recognised in the income statement as the service is received.

Cost of sales also includes amounts payable to third parties in respect of financial obligations arising from carried interest. Amounts payable in respect of carried interest are determined based on the current value of the amount that is expected to be paid when the carried interest crystallises at the end of the performance period. As a result, the cost of sales recognised in respect of carried interest payable may increase or decrease over time, dependent on the fair value of the obligation, until it crystallises.

Wealth Management pays interest to clients on deposits taken. Within Wealth Management, earning a net interest margin is a core activity. Interest payable in respect of these activities is therefore recorded separately from finance costs elsewhere in the business and is reported as part of cost of sales. Interest is recognised using the effective interest method (see above).

## 2. Net operating revenue continued

a) Net operating revenue by segment is presented below:

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
Management fees	2,140.3	253.2	–	2,393.5	(13.3)	2,380.2
Performance fees	42.9	0.9	–	43.8	–	43.8
Carried interest	23.4	–	–	23.4	–	23.4
Other fees	11.3	37.6	–	48.9	(1.6)	47.3
Wealth Management interest income earned	–	42.3	–	42.3	–	42.3
<b>Revenue</b>	<b>2,217.9</b>	<b>334.0</b>	<b>–</b>	<b>2,551.9</b>	<b>(14.9)</b>	<b>2,537.0</b>
Fee expense	(460.7)	(13.6)	–	(474.3)	2.1	(472.2)
Cost of financial obligations in respect of carried interest	5.9	–	–	5.9	–	5.9
Wealth Management interest expense incurred	–	(18.3)	–	(18.3)	–	(18.3)
<b>Cost of sales</b>	<b>(454.8)</b>	<b>(31.9)</b>	<b>–</b>	<b>(486.7)</b>	<b>2.1</b>	<b>(484.6)</b>
<b>Net operating revenue</b>	<b>1,763.1</b>	<b>302.1</b>	<b>–</b>	<b>2,065.2</b>	<b>(12.8)</b>	<b>2,052.4</b>

Year ended 31 December 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Management fees	2,224.3	227.3	–	2,451.6
Performance fees	26.2	0.4	–	26.6
Carried interest	55.7	–	–	55.7
Other fees	11.4	38.5	–	49.9
Wealth Management interest income earned	–	42.6	–	42.6
<b>Revenue</b>	<b>2,317.6</b>	<b>308.8</b>	<b>–</b>	<b>2,626.4</b>
Fee expense	(501.5)	(11.1)	–	(512.6)
Cost of financial obligations in respect of carried interest	(27.3)	–	–	(27.3)
Wealth Management interest expense incurred	–	(15.8)	–	(15.8)
<b>Cost of sales</b>	<b>(528.8)</b>	<b>(26.9)</b>	<b>–</b>	<b>(555.7)</b>
<b>Net operating revenue</b>	<b>1,788.8</b>	<b>281.9</b>	<b>–</b>	<b>2,070.7</b>



# Notes to the accounts continued

## 2. Net operating revenue continued

b) Net operating revenue is presented below by region based on the location of clients:

Year ended 31 December 2019	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Segmental total £m	Adjustments £m	Group total £m
Management fees	727.9	750.5	622.8	292.3	2,393.5	(13.3)	2,380.2
Performance fees	6.0	15.0	14.6	8.2	43.8	–	43.8
Carried interest	–	23.4	–	–	23.4	–	23.4
Other fees	32.1	10.1	6.6	0.1	48.9	(1.6)	47.3
Wealth Management interest income earned	34.3	6.6	1.4	–	42.3	–	42.3
<b>Revenue</b>	<b>800.3</b>	<b>805.6</b>	<b>645.4</b>	<b>300.6</b>	<b>2,551.9</b>	<b>(14.9)</b>	<b>2,537.0</b>
Fee expense	(58.1)	(194.9)	(180.4)	(40.9)	(474.3)	2.1	(472.2)
Change in financial obligations in respect of carried interest	–	5.9	–	–	5.9	–	5.9
Wealth Management interest expense incurred	(15.7)	(2.5)	(0.1)	–	(18.3)	–	(18.3)
<b>Cost of sales</b>	<b>(73.8)</b>	<b>(191.5)</b>	<b>(180.5)</b>	<b>(40.9)</b>	<b>(486.7)</b>	<b>2.1</b>	<b>(484.6)</b>
<b>Net operating revenue</b>	<b>726.5</b>	<b>614.1</b>	<b>464.9</b>	<b>259.7</b>	<b>2,065.2</b>	<b>(12.8)</b>	<b>2,052.4</b>

Year ended 31 December 2018	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Total £m
Management fees	720.3	820.6	622.8	287.9	2,451.6
Performance fees	2.1	4.7	12.5	7.3	26.6
Carried interest	–	55.7	–	–	55.7
Other fees	31.3	12.0	6.5	0.1	49.9
Wealth Management interest income earned	30.6	10.4	1.6	–	42.6
<b>Revenue</b>	<b>784.3</b>	<b>903.4</b>	<b>643.4</b>	<b>295.3</b>	<b>2,626.4</b>
Fee expense	(64.4)	(231.1)	(178.4)	(38.7)	(512.6)
Change in financial obligations in respect of carried interest	–	(27.3)	–	–	(27.3)
Wealth Management interest expense incurred	(12.3)	(3.4)	(0.1)	–	(15.8)
<b>Cost of sales</b>	<b>(76.7)</b>	<b>(261.8)</b>	<b>(178.5)</b>	<b>(38.7)</b>	<b>(555.7)</b>
<b>Net operating revenue</b>	<b>707.6</b>	<b>641.6</b>	<b>464.9</b>	<b>256.6</b>	<b>2,070.7</b>

### Estimates and judgements – revenue

Carried interest represents the Group's contractual right to a share of the profits of around 85 private asset investment vehicles (2018: 74 vehicles), if certain performance hurdles are met. It is recognised when the relevant services have been provided and there is a low probability that a significant reversal will occur.

The amount of carried interest that will be received by the Group is dependent on the cash flows realised by the respective investment vehicles when the underlying investments are successfully disposed of. The resultant cash flows are assessed against the applicable performance hurdle, which is dependent on the capital invested and timing and quantum of distributions to clients in the vehicle. The outcome is discounted to determine the present value of the carried interest to be recognised.

The Group estimates the cash flows that will be received by the investment vehicles with reference to the current fair value of the underlying investments. Judgement is applied to determine certain assumptions used in the estimate. Those assumptions principally relate to the future growth and the timing of cash flows following the realisation of the underlying investments. No future growth is assumed, reflecting the uncertainty of future investment returns. The timing of distributions to clients is based on the expectations of the individual investment managers as to the realisation of a large number of underlying individual securities.

The Group assesses the maturity of the respective investment vehicles by reference to the percentage of committed capital invested and original capital returned to clients. This helps the Group to understand whether a significant risk of reversal exists and to determine whether the revenue should be recognised or further constrained in accordance with the accounting standards.

## 2. Net operating revenue continued

### Estimates and judgements – cost of sales

The change in financial obligations in respect of carried interest (carried interest payable) is based on an assessment of the fair value of the amounts that have been received or may be received in the future and the proportion that is payable to third parties. The settlement of these obligations is contingent on the receipt of the related revenue. The Group therefore applies the same estimates and judgements as those used to determine the present value of the carried interest receivable, as set out on page 122. The amount payable at maturity will depend on the realised value of the carried interest receivable and may differ from the projected value. An increase in the growth rate of 3% would increase cost of sales by £3.2 million, although this would be smaller than the corresponding increase in revenue. An average acceleration/delay in crystallisation dates of one year would increase/reduce cost of sales by £3.0 million/£2.4 million and this amount would be lower than the corresponding increase/reduction in revenue.

## 3. Net gain on financial instruments and other income

The Group holds financial instruments to support its Group capital strategies, which comprise operating capital, seed and co-investment capital and other investible equity. Operating capital is retained in the Group's operating entities to meet minimum local regulatory capital requirements and other capital required for day-to-day operational purposes. Operating capital principally comprises cash and cash equivalents and other low-risk financial instruments, as well as financial instruments held to hedge fair value movements on certain deferred fund awards. Seed and co-investment capital represents strategic investments in the Group's products to develop new investment strategies and co-invest selectively alongside clients. Seed and co-investment capital is financed from investment capital and, where practical, the market risk on seed capital investments is hedged. Other investible equity held in excess of operating requirements is transferred to investment capital, which is managed centrally in accordance with limits approved by the Board.

A portion of the Group's financial instruments measured at fair value are classified as financial instruments at fair value through profit or loss (FVTPL). Net gains and losses on financial instruments at FVTPL principally comprise market returns on investments in debt securities, equities, pooled investment vehicles, gains and losses on derivatives (which mainly arise from hedging activities) and gains and losses on contingent consideration arising from business combinations (and amounts related to carried interest). Net gains and losses on financial instruments at FVTPL that are held to hedge deferred employee cash awards are presented separately and are included within operating expenses (see note 4). The cost of financial obligations in respect of carried interest (other than that relating to contingent consideration) is presented separately and is included within cost of sales (see note 2). In both instances, the presentation better reflects the substance of these transactions and provides more relevant information about the Group's net income and operating expenses.

The remainder of the Group's financial assets measured at fair value are classified as financial assets at fair value through other comprehensive income (FVOCI). Unrealised gains and losses on debt securities classified as financial assets at FVOCI are recorded in other comprehensive income, and the cumulative gains and losses are transferred to the income statement if the investment is sold or otherwise realised. Interest earned on these assets is recognised using the effective interest method and recorded as net finance income within net gains on financial instruments and other income. An explanation of how the Group's financial assets and financial liabilities are classified and measured is included in notes 9 and 17.

Expected credit losses are calculated on financial assets measured at amortised cost and debt instruments measured at FVOCI and are recognised in the income statement (see note 20).

Net finance income is derived from interest on non-banking activities, principally generated from cash and deposits with banks, but also as a result of holding investments in debt securities at amortised cost or FVOCI. Debt securities and cash held outside of Wealth Management entities are managed mainly by Group Treasury to earn competitive rates of return and provide liquidity throughout the Group. Significant amounts of the Group's cash and interest-earning securities are held within Wealth Management and are managed by the Wealth Management treasury team. Interest earned on the assets held within Wealth Management is included in revenue and interest incurred on the liabilities assumed is included in cost of sales. Interest is recognised using the effective interest method (see note 2).

Other income includes amounts arising from ancillary services provided by Benchmark Capital, gains and losses on foreign exchange and rent receivable from subletting properties.

## Notes to the accounts continued

## 3. Net gain on financial instruments and other income continued

Year ended 31 December	2019			2018		
	Income statement £m	Other comprehensive income £m	Total £m	Income statement £m	Other comprehensive income £m	Total £m
<b>Net gain/(loss) on financial instruments at FVTPL</b>	<b>0.6</b>	<b>–</b>	<b>0.6</b>	<b>(13.9)</b>	<b>–</b>	<b>(13.9)</b>
Net gain/(loss) arising from fair value movements	–	6.8	6.8	–	(5.7)	(5.7)
Net transfers on disposal	0.5	(0.5)	–	0.2	(0.2)	–
<b>Net gain/(loss) on financial assets at FVOCI</b>	<b>0.5</b>	<b>6.3</b>	<b>6.8</b>	<b>0.2</b>	<b>(5.9)</b>	<b>(5.7)</b>
<b>Net finance income</b>	<b>8.3</b>	<b>–</b>	<b>8.3</b>	<b>8.4</b>	<b>–</b>	<b>8.4</b>
<b>Other income</b>	<b>33.6</b>	<b>–</b>	<b>33.6</b>	<b>25.6</b>	<b>–</b>	<b>25.6</b>
<b>Net gain on financial instruments and other income<sup>1</sup></b>	<b>43.0</b>	<b>6.3</b>	<b>49.3</b>	<b>20.3</b>	<b>(5.9)</b>	<b>14.4</b>
<b>Net gain/(loss) on financial instruments held to hedge employee deferred cash awards – presented within operating expenses</b>	<b>21.3</b>	<b>–</b>	<b>21.3</b>	<b>(11.3)</b>	<b>–</b>	<b>(11.3)</b>
<b>Change in financial obligations in respect of carried interest – presented within cost of sales</b>	<b>5.9</b>	<b>–</b>	<b>5.9</b>	<b>(27.3)</b>	<b>–</b>	<b>(27.3)</b>
<b>Net gain/(loss) on financial instruments and other income – net of hedging and carried interest financial obligations</b>	<b>70.2</b>	<b>6.3</b>	<b>76.5</b>	<b>(18.3)</b>	<b>(5.9)</b>	<b>(24.2)</b>

1. Includes a credit of £1.1 million (2018: £13.0 million charge) of exceptional items.

## 4. Operating expenses

Operating expenses represents the Group's administrative expenses and is recognised as the services are received. Certain costs, including leases and capitalised costs, are charged evenly over the life of the relevant contract or useful life of the asset. The biggest component of the Group's operating expenses is the cost of employee benefits, as shown below. Other costs include accommodation, information technology, marketing and outsourcing costs.

The control of costs, including compensation costs, is a key performance objective of the Group. Compensation costs are managed to a target total compensation ratio of between 45% and 49%. Targeting a total compensation ratio range provides some flexibility to manage the overall cost base in response to market conditions. Total costs are managed to a target long-term key performance indicator ratio of total costs to net income of 65%.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. Employee benefits expense is presented net of gains and losses on financial instruments held to hedge deferred employee cash awards (see note 3). The Group makes some performance awards to employees that are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. The Group holds investments that are linked to these performance awards in order to hedge the related expense. Gains and losses on these investments are netted against the relevant costs in the income statement but are presented separately below.

Further detail on other types of employee benefit can be found elsewhere within these financial statements, see note 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

Year ended 31 December	2019 £m	2018 £m
Salaries, wages and other remuneration	855.6	839.7
Social security costs	84.2	66.5
Pension costs	44.1	45.6
<b>Employee benefits expense</b>	<b>983.9</b>	<b>951.8</b>
Net (gain)/loss on financial instruments held to hedge deferred cash awards	(21.3)	11.3
<b>Employee benefits expense – net of hedging</b>	<b>962.6</b>	<b>963.1</b>

The employee benefits expense net of hedging of £962.6 million (2018: £963.1 million) includes £35.3 million (2018: £59.8 million) that is presented within exceptional items. This comprises £6.3 million (2018: £3.8 million) arising from acquisitions completed by the Group and £29.0 million (2018: £56.0 million) of expenses in relation to the cost reduction programme.

Information about the compensation of key management personnel can be found in note 27. Details of the amounts paid to or receivable from Directors along with the number of Directors who exercised share options in the year is provided in the Remuneration report on pages 72 to 108.

The monthly average number of employees of the Company and its subsidiary undertakings during the year was:

	2019 Number	2018 Number
Full-time employees	4,778	4,383
Contract and temporary employees	581	489
	<b>5,359</b>	<b>4,872</b>
<b>Employed as follows:</b>		
Asset Management	4,222	3,910
Wealth Management	1,101	924
Group	36	38
	<b>5,359</b>	<b>4,872</b>

### (b) Audit and other services

Year ended 31 December	2019 £m	2018 £m
Fees payable to the auditor for the audit of the Company and Consolidated financial statements	0.6	0.6
<b>Fees payable to the auditor and its associates for other services:</b>		
Audit of the Company's subsidiaries	3.4	3.3
Audit-related assurance services	1.0	1.0
Other assurance services	0.5	0.5
Other non-audit services	0.1	0.1
	<b>5.6</b>	<b>5.5</b>

# Notes to the accounts continued

## 5. Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a)) and relate to taxes payable for the reporting period (current tax). The charge also includes benefits and charges relating to when income or expenses are recognised in a different period for tax and accounting purposes or specific treatment relating to acquisitions (deferred tax – see note 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

Year ended 31 December	2019 £m	2018 £m
UK current year charge	60.9	56.9
Rest of the world current year charge	67.7	78.6
Adjustments in respect of prior year estimates	(1.1)	1.7
<b>Total current tax</b>	<b>127.5</b>	<b>137.2</b>
Origination and reversal of temporary differences	(4.1)	7.9
Adjustments in respect of prior year estimates	2.5	0.1
Effect of changes in corporation tax rates	3.0	–
<b>Total deferred tax</b>	<b>1.4</b>	<b>8.0</b>
<b>Tax charge reported in the income statement</b>	<b>128.9</b>	<b>145.2</b>

### (b) Analysis of tax credit reported in other comprehensive income

Year ended 31 December	2019 £m	2018 £m
Current tax (credit)/charge on movements in financial assets at fair value through other comprehensive income	(1.1)	1.5
Deferred tax credit on actuarial gains and losses on defined benefit pension schemes	(4.0)	(2.0)
Deferred tax charge/(credit) on other movements through other comprehensive income	1.5	(0.8)
<b>Tax credit reported in other comprehensive income</b>	<b>(3.6)</b>	<b>(1.3)</b>

### (c) Analysis of tax (credit)/charge reported in equity

Year ended 31 December	2019 £m	2018 £m
Current tax credit on Equity Compensation Plan and other share-based remuneration	(2.6)	(2.6)
Deferred tax (credit)/charge on Equity Compensation Plan and other share-based remuneration	(2.6)	5.9
<b>Tax (credit)/charge reported in equity</b>	<b>(5.2)</b>	<b>3.3</b>

### (d) Factors affecting tax charge for the year

The UK standard rate of corporation tax for 2019 is 19% (2018: standard rate of 19%). The tax charge for the year is higher (2018: higher) than a charge based on the UK standard rate. The differences are explained below:

Year ended 31 December	2019 £m	2018 £m
Profit before tax	624.6	649.9
Less post-tax net profit of associates and joint ventures	(27.2)	(19.1)
<b>Profit before tax of Group entities</b>	<b>597.4</b>	<b>630.8</b>
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK standard rate	<b>113.5</b>	<b>119.9</b>
<b>Effects of:</b>		
Different statutory tax rates of overseas jurisdictions	8.0	8.7
Permanent differences including non-taxable income and non-deductible expenses	1.7	11.1
Net movement in timing differences for which no deferred tax is recognised	1.3	3.7
Deferred tax adjustments in respect of changes in corporation tax rates	3.0	–
Adjustments in respect of prior year estimates	1.4	1.8
<b>Tax charge reported in the income statement</b>	<b>128.9</b>	<b>145.2</b>



## 5. Tax expense continued

### Estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. Liabilities relating to open and judgemental matters, including those in relation to deferred taxes, are based on the Group's assessment of the most likely outcome based on the information available. As a result, certain tax amounts are based on estimates using factors that are relevant to the specific judgement. The Group engages constructively and transparently with tax authorities with a view to early resolution of any uncertain tax matters. Where the final tax outcome of these matters is different from the amounts provided, such differences will impact the tax charge in a future period. Such estimates are based on assumptions made on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances, including local tax laws. There was no individual judgemental component of the tax expense that was material to the Group results when taking into account the likely range of potential outcomes.

Amounts recorded within the 2019 tax charge relating to these judgements were not material (2018: same).

## 6. Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share issued by the Company, excluding own shares held by the Group. The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all share options that would be expected to be exercised, as they have value to the option holder, had been exercised in the year. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

Year ended 31 December	2019 Number Millions	2018 Number Millions
Weighted average number of shares used in the calculation of basic earnings per share	276.2	275.9
Effect of dilutive potential shares – share options	4.8	5.2
Effect of dilutive potential shares – contingently issuable shares	0.1	–
<b>Weighted average number of shares used in the calculation of diluted earnings per share</b>	<b>281.1</b>	<b>281.1</b>

The pre-exceptional earnings per share calculations are based on profit after tax excluding non-controlling interest of £4.0 million (2018: £2.6 million). After exceptional items, the profit after tax attributable to non-controlling interest was £1.6 million (2018: loss of £0.3 million).

## 7. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-year and annual results. Dividends are recognised only when they are paid or approved by shareholders. The reduction in equity in the year therefore comprises the prior year final dividend and the current year interim dividend.

	2020		2019		2018	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Prior year final dividend paid			216.5	79.0	216.0	79.0
Interim dividend paid			95.8	35.0	95.7	35.0
<b>Total dividends paid</b>			<b>312.3</b>	<b>114.0</b>	<b>311.7</b>	<b>114.0</b>
<b>Current year final dividend recommended</b>	<b>216.7</b>	<b>79.0</b>				

Dividends of £9.8 million (2018: £10.5 million) on shares held by employee benefit trusts have been waived and dividends may not be paid on treasury shares. The Board has recommended a 2019 final dividend of 79.0 pence per share (2018 final dividend: 79.0 pence), amounting to £216.7 million (2018 final dividend: £216.5 million). The dividend will be paid on 7 May 2020 to shareholders on the register at 27 March 2020 and will be accounted for in 2020.

In addition, the Group paid £2.4 million of dividends to holders of non-controlling interests in subsidiaries of the Group during 2019 (2018: £1.4 million), resulting in total dividends paid of £314.7 million (2018: £313.1 million).

# Notes to the accounts continued

## 8. Trade and other receivables

Trade and other receivables includes prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. Trade and other receivables, other than deposits with banks in the form of bullion, are recorded initially at fair value and subsequently at amortised cost (see note 9), after the deduction of provisions for impairment. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense is recognised in the income statement. Accrued income, other than amounts relating to carried interest, represents unbilled revenue and is not dependent on future performance. Amounts due from third parties also include settlement accounts for transactions undertaken on behalf of funds and investors. Deposits with banks in the form of bullion are recorded at fair value.

	2019			2018		
	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	–	87.8	87.8	–	72.6	72.6
Settlement accounts	–	150.2	150.2	–	170.1	170.1
Accrued income	71.2	365.5	436.7	56.8	337.7	394.5
Prepayments	0.1	42.4	42.5	0.1	35.9	36.0
Other receivables	16.2	51.4	67.6	5.5	54.1	59.6
Current tax	–	16.5	16.5	–	7.0	7.0
	<b>87.5</b>	<b>713.8</b>	<b>801.3</b>	<b>62.4</b>	<b>677.4</b>	<b>739.8</b>
<b>Trade and other receivables held at fair value:</b>						
Deposits with banks in the form of bullion	–	5.4	5.4	–	9.1	9.1
	<b>87.5</b>	<b>719.2</b>	<b>806.7</b>	<b>62.4</b>	<b>686.5</b>	<b>748.9</b>

The fair value of trade and other receivables held at amortised cost approximates their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 9).

### Estimates and judgements

Accrued income includes £75.7 million of receivables in respect of carried interest (2018: £74.7 million). This income is due over a number of years and only when contractually agreed performance levels are exceeded. The income received may vary as a result of the actual experience, including future investment returns, differing from that assumed. Further information regarding the estimates and judgements applied is set out in note 2.

## 9. Financial assets

The Group holds financial assets including equities, debt securities, pooled investment vehicles and derivatives to support its Group capital strategies and its Wealth Management banking book, including loans to clients. The Group also enters into derivatives on behalf of Wealth Management clients, referred to as client facilitation (see note 19).

### Classification and measurement

The Group initially records all financial assets at fair value. The Group subsequently holds each financial asset at FVTPL or FVOCI or at amortised cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants. Amortised cost is the amount determined based on moving the initial amount recognised for the financial instrument to the maturity value on a systematic basis using a fixed interest rate (the effective interest rate), taking account of repayment dates and initial premiums or discounts.

#### Financial assets at amortised cost

Financial assets are measured at amortised cost when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows. This classification typically applies to the Group's loans and advances, trade receivables and some debt securities held by the Group's Wealth Management entities. The carrying value of amortised cost financial assets is adjusted for impairment under the expected loss model (see note 3 and note 20).

#### Financial assets at fair value through other comprehensive income

Financial assets are held at FVOCI when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows and to sell assets. This classification applies to certain debt securities within the Group's Wealth Management entities and to debt securities held as part of the Group's investment capital portfolio. Impairment is recognised for debt securities classified as FVOCI under the expected loss model (see note 3 and note 20).

#### Financial assets at fair value through profit or loss

All other financial assets are held at FVTPL. The Group's financial assets at FVTPL principally comprise investments in debt securities, equities, pooled investment vehicles and derivatives.

## 9. Financial assets continued

### Estimates and judgements – fair value measurements

The Group holds financial instruments that are measured at fair value. The fair value of financial instruments may require some estimation or may be derived from readily available sources. The degree of estimation involved depends on the individual financial instrument and is reflected in the fair value hierarchy below. The hierarchy also reflects the extent of judgements used in the valuation but this does not necessarily indicate that the fair value is more or less likely to be realised. Judgements may include determining which valuation approach to apply as well as determining appropriate assumptions. For level 2 and 3 financial instruments, the judgement applied by the Group gives rise to an estimate of fair value. The approach to determining the fair value estimate of level 2 and 3 financial instruments is set out below, with no individual input giving rise to a material component of the carrying value for the Group. The fair value levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in pooled investment vehicles, quoted equities and government debt, daily-priced funds and exchange-traded derivatives;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, asset and mortgage backed securities, and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. The Group's level 3 financial assets principally comprise investments in private equity funds that are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018. Level 3 financial assets also include investments in property investment vehicles that operate hotel businesses. These are valued based on the expected future cash flows that could be generated from the hotel business.

	2019				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
<b>Financial assets at amortised cost:</b>					
Loans and advances to banks	–	–	–	350.2	350.2
Loans and advances to clients	–	–	–	398.5	398.5
Debt securities	–	–	–	67.0	67.0
	–	–	–	<b>815.7</b>	<b>815.7</b>
<b>Financial assets at FVOCI:</b>					
Debt securities	598.3	318.6	–	–	916.9
	<b>598.3</b>	<b>318.6</b>	–	–	<b>916.9</b>
<b>Financial assets at FVTPL:</b>					
Loans and advances to clients	–	4.6	–	–	4.6
Debt securities	4.4	213.6	5.6	–	223.6
Pooled investment vehicles	546.6	28.5	95.3	–	670.4
Equities	282.5	13.7	29.7	–	325.9
Derivative contracts	0.5	54.5	4.3	–	59.3
	<b>834.0</b>	<b>314.9</b>	<b>134.9</b>	–	<b>1,283.8</b>
	<b>1,432.3</b>	<b>633.5</b>	<b>134.9</b>	<b>815.7</b>	<b>3,016.4</b>

## Notes to the accounts continued

## 9. Financial assets continued

	2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
<b>Financial assets at amortised cost:</b>					
Loans and advances to banks	–	–	–	384.2	384.2
Loans and advances to clients	–	–	–	572.6	572.6
Debt securities	–	–	–	139.1	139.1
	–	–	–	<b>1,095.9</b>	<b>1,095.9</b>
<b>Financial assets at FVOCI:</b>					
Debt securities	487.3	442.0	–	–	929.3
	<b>487.3</b>	<b>442.0</b>	–	–	<b>929.3</b>
<b>Financial assets at FVTPL:</b>					
Loans and advances to clients	–	2.4	–	–	2.4
Debt securities	260.7	103.3	5.0	–	369.0
Pooled investment vehicles	614.5	5.0	80.9	–	700.4
Equities	197.4	0.7	21.5	–	219.6
Derivative contracts	5.2	24.1	9.0	–	38.3
	<b>1,077.8</b>	<b>135.5</b>	<b>116.4</b>	–	<b>1,329.7</b>
	<b>1,565.1</b>	<b>577.5</b>	<b>116.4</b>	<b>1,095.9</b>	<b>3,354.9</b>

	2019 £m	2018 £m
Current	2,606.4	2,822.9
Non-current	410.0	532.0
	<b>3,016.4</b>	<b>3,354.9</b>

The fair value of financial assets at amortised cost approximates to their carrying value. No financial assets were transferred between levels during 2019 (2018: none).

Movements in financial assets categorised as level 3 during the year were:

	2019 £m	2018 £m
At 1 January	116.4	71.9
Exchange translation adjustments	(2.4)	1.9
Net gain recognised in the income statement	1.3	6.3
Additions	35.2	48.4
Disposals	(15.6)	(12.1)
<b>At 31 December</b>	<b>134.9</b>	<b>116.4</b>

## 10. Associates and joint ventures

Associates are entities in which the Group has an investment and over which it has significant influence, but not control, through participation in the financial and operating policy decisions. Joint ventures are entities in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. In both cases, the Group initially records the investment at the fair value of the purchase consideration, including purchase related costs. The Group's income statement reflects its share of the entity's profit or loss after tax and amortisation of intangible assets. The statement of other comprehensive income records the Group's share of gains and losses arising from the entity's financial assets at FVOCI (see note 9). The statement of financial position subsequently records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase less subsequent amortisation. The statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are assessed regularly for impairment.

The associates and joint ventures reserve in the statement of changes in equity represents the Group's share of profits in its investments yet to be received (for example, in the form of dividends or distributions), less any amortisation of intangible assets. Certain associates are held at fair value where permitted by accounting standards and are recorded within financial assets (see note 9). Information about the Group's principal associates measured at fair value is disclosed within this note.

### (a) Investments in associates and joint ventures accounted for using the equity method

	2019			2018		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
At 1 January	173.1	2.1	175.2	141.8	2.1	143.9
Exchange translation adjustments	(8.3)	(0.1)	(8.4)	1.0	–	1.0
Additions	12.6	196.3	208.9	22.7	–	22.7
Disposals	(0.7)	–	(0.7)	(8.9)	–	(8.9)
Profit for the year after tax <sup>1</sup>	26.9	0.3	27.2	18.4	0.7	19.1
Other movements in reserves of associates and joint ventures	(0.7)	–	(0.7)	0.5	–	0.5
Distributions of profit	(2.7)	(0.8)	(3.5)	(2.4)	(0.7)	(3.1)
<b>At 31 December</b>	<b>200.2</b>	<b>197.8</b>	<b>398.0</b>	<b>173.1</b>	<b>2.1</b>	<b>175.2</b>

1. Includes £3.3 million of costs that are presented within exceptional items.

On 3 October 2019, the Group acquired a 49.9% equity interest in a joint venture, Scottish Widows Schroder Wealth Holdings Limited, that trades as 'Schroders Personal Wealth' (SPW). A 19.9% interest in Schroder Wealth Holdings Limited (SWHL), the Group's UK Wealth Management business, was transferred as consideration for the 49.9% interest in SPW and the acquisition of a portfolio of Wealth Management clients (see note 29). A gain of £153.6 million was recognised in the Group's statement of changes in equity as a result of the partial disposal of SWHL.

The Group invested in four other associate undertakings during the year for a total consideration of £12.6 million.

Information about the significant associates and joint ventures held by the Group at 31 December 2019 is shown below. The companies are unlisted.

Name of associate or joint venture	Nature of its business	Principal place of business	Class of share	Percentage owned by the Group
Scottish Widows Schroder Wealth Holdings Limited (SPW)	Wealth management	England	Ordinary shares	49.9%
RWC Partners Limited (RWC)	Investment management	England	Ordinary shares	41.0%
Bank of Communications Schroder Fund Management Co. Ltd. (BoCom)	Investment management	China	Ordinary shares	30.0%
Axis Asset Management Company Limited (Axis)	Investment management	India	Ordinary shares	25.0%
A10 Capital Parent Company LLC (A10)	Real estate lending	USA	Common units	20.0%

On 31 January 2020, the Group disposed of its 41.0% interest in RWC.



## Notes to the accounts continued

## 10. Associates and joint ventures continued

	2019							2018					
	SPW £m	RWC £m	BoCom £m	Axis £m	A10 £m	Other £m	Total £m	RWC £m	BoCom £m	Axis £m	A10 £m	Other £m	Total £m
Non-current assets	217.3	1.7	28.3	16.9	894.2	4.3	1,162.7	5.9	29.1	20.5	868.3	2.3	926.1
Current assets	137.5	83.5	470.7	36.3	93.0	18.6	839.6	76.0	399.8	54.2	129.4	20.9	680.3
Non-current liabilities	(20.1)	(0.1)	(4.2)	(3.5)	(882.4)	(1.3)	(911.6)	(0.1)	–	(4.0)	(903.5)	(2.3)	(909.9)
Current liabilities	(63.2)	(38.5)	(101.5)	(10.7)	(61.4)	(4.0)	(279.3)	(40.1)	(81.1)	(39.3)	(55.0)	(3.5)	(219.0)
<b>Total equity</b>	<b>271.5</b>	<b>46.6</b>	<b>393.3</b>	<b>39.0</b>	<b>43.4</b>	<b>17.6</b>	<b>811.4</b>	<b>41.7</b>	<b>347.8</b>	<b>31.4</b>	<b>39.2</b>	<b>17.4</b>	<b>477.5</b>
Group's share of net assets	135.5	19.1	118.0	9.8	8.4	5.7	296.5	17.3	104.3	7.8	7.9	5.5	142.8
Goodwill and intangible assets	63.7	9.7	–	11.0	1.3	19.2	104.9	9.7	–	11.7	1.4	9.6	32.4
Deferred tax liability	(3.4)	–	–	–	–	–	(3.4)	–	–	–	–	–	–
<b>Carrying value held by the Group</b>	<b>195.8</b>	<b>28.8</b>	<b>118.0</b>	<b>20.8</b>	<b>9.7</b>	<b>24.9</b>	<b>398.0</b>	<b>27.0</b>	<b>104.3</b>	<b>19.5</b>	<b>9.3</b>	<b>15.1</b>	<b>175.2</b>
Net income	25.8	55.0	195.8	43.1	29.8	15.1	364.6	52.4	158.8	82.3	11.7	13.2	318.4
Profit for the year	0.8	10.6	66.5	11.3	5.5	0.2	94.9	10.1	54.4	2.1	(5.3)	0.0	61.3
<b>Total comprehensive income</b>	<b>0.8</b>	<b>10.6</b>	<b>66.5</b>	<b>11.3</b>	<b>5.5</b>	<b>0.2</b>	<b>94.9</b>	<b>10.1</b>	<b>54.4</b>	<b>2.1</b>	<b>(5.3)</b>	<b>0.0</b>	<b>61.3</b>
Group's share of profit for the year before amortisation	0.4	4.3	20.0	2.8	1.1	0.4	29.0	4.2	16.3	0.5	(1.1)	0.0	19.9
Amortisation charge	(0.9)	–	–	–	–	(0.9)	(1.8)	–	–	–	–	(0.8)	(0.8)
<b>Group's share of profit for the year</b>	<b>(0.5)</b>	<b>4.3</b>	<b>20.0</b>	<b>2.8</b>	<b>1.1</b>	<b>(0.5)</b>	<b>27.2</b>	<b>4.2</b>	<b>16.3</b>	<b>0.5</b>	<b>(1.1)</b>	<b>(0.8)</b>	<b>19.1</b>
<b>Group's share of total comprehensive income</b>	<b>(0.5)</b>	<b>4.3</b>	<b>20.0</b>	<b>2.8</b>	<b>1.1</b>	<b>(0.5)</b>	<b>27.2</b>	<b>4.2</b>	<b>16.3</b>	<b>0.5</b>	<b>(1.1)</b>	<b>(0.8)</b>	<b>19.1</b>

## (b) Investments in associates measured at fair value

Where the Group holds units in pooled investment vehicles that give the Group significant influence, but not control, through participation in the financial and operating policy decisions, the Group records such investments at fair value. Information about the Group's principal associates measured at fair value is shown below. The investments are recorded as financial assets within the Group's statement of financial position.

	2019						
	Schroder Advanced Beta Global Equity Small and Mid Cap £m	Schroder Fusion Managed Defensive £m	Schroder Fusion Portfolio 3 £m	Schroder YEN Target (Annual) £m	Schroder India Equity £m	Schroder Absolute Return Emerging Markets Debt Portfolio LP £m	Schroder ISF Dynamic Indian Income Bond £m
Current assets	53.0	15.2	26.2	9.9	20.8	5.6	16.8
Current liabilities	–	–	–	–	–	–	–
<b>Total equity</b>	<b>53.0</b>	<b>15.2</b>	<b>26.2</b>	<b>9.9</b>	<b>20.8</b>	<b>5.6</b>	<b>16.8</b>
Net income	13.0	–	–	0.5	0.1	0.4	0.1
Profit for the year	12.7	–	–	0.5	0.1	0.3	0.1
<b>Total comprehensive income</b>	<b>12.7</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>
Country of incorporation	UK	UK	UK	Japan	UK	US	Luxembourg
Percentage owned by the Group	39%	34%	25%	34%	28%	28%	21%

## 10. Associates and joint ventures continued

2018

	Schroder Global Multi-Factor Equity Fund £m	Schroder ISF European Alpha Focus £m	Schroder Fusion Portfolio 3 £m	Schroder YEN Target (Annual) £m	Sicredi – FI Multimercado Elite Credito Privado LP £m	Schroder Absolute Return Emerging Markets Debt Portfolio LP £m
Current assets	841.7	86.8	25.3	7.3	6.9	7.1
Current liabilities	(1.3)	–	(4.4)	–	–	–
<b>Total equity</b>	<b>840.4</b>	<b>86.8</b>	<b>20.9</b>	<b>7.3</b>	<b>6.9</b>	<b>7.1</b>
Net income	19.5	(9.0)	(0.2)	0.4	0.3	0.1
Profit for the year	16.8	(9.0)	(0.2)	0.4	0.3	0.1
<b>Total comprehensive income</b>	<b>16.8</b>	<b>(9.0)</b>	<b>(0.2)</b>	<b>0.4</b>	<b>0.3</b>	<b>0.1</b>
Country of incorporation	UK	Luxembourg	UK	Japan	Brazil	US
Percentage owned by the Group	37%	19%	29%	33%	31%	22%

## 11. Property, plant and equipment

The Group's property, plant and equipment provides the infrastructure to enable the Group to operate, and principally comprises leasehold improvements, freehold land and buildings, fixtures and fittings and computer equipment. Assets are initially stated at cost, which includes expenditure associated with acquisition. The cost of the asset is recognised in the income statement as a depreciation charge on a straight line basis over the estimated useful life, with the exception of land as it is assumed to have an indefinite useful life.

	2019				2018			
	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m
<b>Cost</b>								
At 1 January	189.0	19.7	110.9	319.6	166.0	23.1	72.4	261.5
Exchange translation adjustments	(1.9)	–	(1.5)	(3.4)	2.0	–	1.9	3.9
Additions	3.7	–	39.4	43.1	58.6	0.6	51.9	111.1
Disposals	(3.2)	–	(3.4)	(6.6)	(37.6)	(4.0)	(15.3)	(56.9)
<b>At 31 December</b>	<b>187.6</b>	<b>19.7</b>	<b>145.4</b>	<b>352.7</b>	<b>189.0</b>	<b>19.7</b>	<b>110.9</b>	<b>319.6</b>
<b>Accumulated depreciation</b>								
At 1 January	(22.3)	(0.6)	(47.3)	(70.2)	(50.5)	(0.1)	(48.1)	(98.7)
Exchange translation adjustments	1.2	–	1.0	2.2	(1.3)	–	(1.1)	(2.4)
Depreciation charge	(14.3)	(0.3)	(16.6)	(31.2)	(8.1)	(0.5)	(13.2)	(21.8)
Disposals	1.4	–	2.7	4.1	37.6	–	15.1	52.7
<b>At 31 December</b>	<b>(34.0)</b>	<b>(0.9)</b>	<b>(60.2)</b>	<b>(95.1)</b>	<b>(22.3)</b>	<b>(0.6)</b>	<b>(47.3)</b>	<b>(70.2)</b>
<b>Net book value at 31 December</b>	<b>153.6</b>	<b>18.8</b>	<b>85.2</b>	<b>257.6</b>	<b>166.7</b>	<b>19.1</b>	<b>63.6</b>	<b>249.4</b>
<b>Right-of-use assets (see note 12)</b>				<b>394.7</b>				
<b>Property, plant and equipment net book value at 31 December</b>				<b>652.3</b>				

# Notes to the accounts continued

## 12. Leases

The Group's lease arrangements primarily consist of operating leases relating to office space.

IFRS 16 Leases (IFRS 16) replaced IAS 17 Leases (IAS 17) on 1 January 2019 (see Presentation of the financial statements on page 167). Until 31 December 2018, in accordance with IAS 17, obligations under lease agreements were not recorded on the Group's Consolidated statement of financial position but were disclosed as commitments (see note 24). The Group has not restated comparative information.

The Group initially records a lease liability in the Group's Consolidated statement of financial position reflecting the present value of the future contractual cash flows to be made over the lease term, discounted using the Group's incremental borrowing rate. A right-of-use (ROU) asset is also recorded at the value of the lease liability plus any directly related costs and estimated dilapidation expenses and is presented within property, plant and equipment (see note 11). Interest is accrued on the lease liability using the effective interest rate method to give a constant rate of return over the life of the lease whilst the balance is reduced as lease payments are made. The ROU asset is depreciated over the life of the lease as the benefit of the lease is consumed.

The Group considers whether the lease term should include options to extend or cancel the lease. Relevant factors that could create an economic incentive to exercise the option are considered and the option is included if it is reasonably certain to be exercised. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects the likelihood that it will exercise (or not exercise) the option.

	2019	
	Right-of-use assets £m	Lease liabilities £m
At 1 January	411.9	418.3
Exchange translation adjustments	(4.0)	(6.0)
Additions and remeasurements of lease obligations	27.1	27.1
Lease payments	–	(26.5)
Depreciation charge	(40.3)	–
Interest expense	–	12.4
<b>At 31 December</b>	<b>394.7</b>	<b>425.3</b>

The depreciation charge and interest expense relating to leases are recorded within operating expenses.

## 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. Identifiable acquired intangible assets relating to business combinations include technology, contractual agreements to manage client assets and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are classified as acquired intangible assets and charged to the income statement over time.

Consideration paid to acquire a business in excess of the acquisition date fair value of net tangible and identifiable intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant cash-generating unit (CGU) as a whole.

Software purchased and developed for use in the business is also classified as an intangible asset. The cost of purchasing and developing software is taken to the income statement over time as an amortisation charge within operating expenses. The treatment is similar to property, plant and equipment, and the asset is normally amortised on a straight line basis over three to five years, but can have an estimated useful life of up to 10 years.

### 13. Goodwill and intangible assets continued

	2019				2018			
	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	676.5	278.4	251.4	1,206.3	595.1	247.3	177.4	1,019.8
Exchange translation adjustments	(10.3)	(3.6)	(2.0)	(15.9)	10.6	4.0	1.6	16.2
Additions	104.5	51.2	99.8	255.5	70.8	27.1	90.8	188.7
Disposals	(8.9)	–	(8.6)	(17.5)	–	–	(18.4)	(18.4)
<b>At 31 December</b>	<b>761.8</b>	<b>326.0</b>	<b>340.6</b>	<b>1,428.4</b>	<b>676.5</b>	<b>278.4</b>	<b>251.4</b>	<b>1,206.3</b>
<b>Accumulated amortisation</b>								
At 1 January	–	(154.1)	(84.0)	(238.1)	–	(123.3)	(70.7)	(194.0)
Exchange translation adjustments	–	1.5	1.0	2.5	–	(2.0)	(1.5)	(3.5)
Amortisation charge for the year	–	(30.0)	(37.2)	(67.2)	–	(28.8)	(30.2)	(59.0)
Disposals	–	(0.1)	7.9	7.8	–	–	18.4	18.4
<b>At 31 December</b>	<b>–</b>	<b>(182.7)</b>	<b>(112.3)</b>	<b>(295.0)</b>	<b>–</b>	<b>(154.1)</b>	<b>(84.0)</b>	<b>(238.1)</b>
<b>Carrying amount at 31 December</b>	<b>761.8</b>	<b>143.3</b>	<b>228.3</b>	<b>1,133.4</b>	<b>676.5</b>	<b>124.3</b>	<b>167.4</b>	<b>968.2</b>

Of the total goodwill, £556.6 million (2018: £492.0 million) is allocated to Asset Management and £205.2 million (2018: £184.5 million) is allocated to Wealth Management. £66.1 million (2018: £65.0 million) of Wealth Management's goodwill relates to Benchmark Capital.

The Group acquired £49.9 million (2018: £24.9 million) of intangible assets as a result of business combinations completed in 2019, £37.0 million of which related to the acquisition of Blue Asset Management GmbH and BlueOrchard Finance AG in the Asset Management segment, and £12.9 million of which related to five other business combinations within the Wealth Management segment. The Group also acquired £1.3 million (2018: £2.2 million) of customer contracts through Benchmark Capital that were not considered to be business combinations.

#### Estimates and judgements

The Group estimates the fair value of intangible assets acquired at the acquisition date based on forecast profits, taking account of synergies, derived from existing contractual arrangements. This assessment involves judgement in determining assumptions relating to potential future revenues, profit margins, appropriate discount rates and the expected duration of client relationships. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, is accounted for as goodwill.

At each reporting date, the Group applies judgement to determine whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and a full assessment determines that the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from that business combination. For all relevant acquisitions, it is the Group's judgement that the lowest level of CGU used to determine impairment is segment level for Asset Management. The Benchmark Capital business within Wealth Management is assessed separately from the rest of Wealth Management.

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model using the Group's five-year strategic business plan cash flows. The key assumptions on which the Group's cash flow projections are based include long-term market growth rates of 2% per annum (2018: 2%), a pre-tax discount rate of 10% (2018: 11%), expected fund flows and expected changes to margins. The results of the calculations indicate that goodwill is not impaired.

# Notes to the accounts continued

## 13. Goodwill and intangible assets continued

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGUs is small. This is due to the amount of goodwill allocated to the relevant CGU relative to the size of the relevant future profitability estimate.

Movements in the growth rate and/or the discount rate of 1% would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years shows that the Group would have recognised no changes (2018: nil) to its goodwill asset in the year as a result of inaccurate projections.

## 14. Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded. A deferred tax asset represents a tax reduction that is expected to arise in a future period based on past transactions. A deferred tax liability represents taxes that will become payable in a future period as a result of current or prior year transactions.

Deferred tax liabilities also arise on certain acquisitions where the amortisation of the acquired intangible asset does not result in a tax deduction. The deferred tax liability is established on acquisition and is released to the income statement to match the intangible asset amortisation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the year end date.

	2019					2018				
	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m
At 1 January	(2.1)	75.6	(26.1)	(19.7)	27.7	0.1	83.7	(27.4)	(17.2)	39.2
Restatement on adoption of new accounting standards <sup>1</sup>	–	–	–	0.6	0.6	–	–	–	1.7	1.7
Income statement credit/(charge)	(4.3)	4.4	(0.3)	1.8	1.6	(2.0)	(3.7)	(0.7)	(1.6)	(8.0)
Income statement charge due to changes in tax rates	0.6	(4.0)	0.1	0.3	(3.0)	–	–	–	–	–
Credit to other comprehensive income	–	–	4.0	(1.5)	2.5	–	–	2.0	0.8	2.8
Credit/(charge) taken to equity	–	2.6	–	–	2.6	–	(5.9)	–	–	(5.9)
Business combinations (see note 29)	–	(0.1)	–	(9.9)	(10.0)	–	–	–	(3.8)	(3.8)
Exchange translation adjustments	0.1	(1.2)	–	(0.2)	(1.3)	(0.2)	1.5	–	0.4	1.7
<b>At 31 December</b>	<b>(5.7)</b>	<b>77.3</b>	<b>(22.3)</b>	<b>(28.6)</b>	<b>20.7</b>	<b>(2.1)</b>	<b>75.6</b>	<b>(26.1)</b>	<b>(19.7)</b>	<b>27.7</b>

1. Restated following the adoption of IFRS 16 on 1 January 2019, see Presentation of the financial statements on page 167. The 2018 restatement reflects the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

A deferred tax asset of £19.0 million (2018: £18.8 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the deferred tax asset could be utilised.

Deferred tax assets of £9.9 million (2018: £8.0 million) relating to other losses and other temporary differences have not been recognised as there is insufficient evidence that there will be sufficient taxable profits in the future against which these deferred tax assets could be utilised.

After offsetting deferred tax assets and liabilities where appropriate within territories, the net deferred tax asset comprises:

	2019 £m	2018 £m
Deferred tax assets	36.9	42.8
Deferred tax liabilities	(16.2)	(15.1)
	<b>20.7</b>	<b>27.7</b>



## 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 (the Life Company). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to a unit trust. As it is a life assurance product, the contractual rights and obligations of the investments remain with the Group and the AUM is therefore included on the Group's statement of financial position, together with the liability to investors. The Group earns fee income from managing the investment, which is included in revenue.

Financial assets and liabilities held by the Life Company are measured at FVTPL. Other balances include cash and receivables, which are measured at amortised cost (see note 9). The Life Company's assets are regarded as current assets as they represent the amount available to Life Company investors (or third party investors in consolidated 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.

	2019 £m	2018 £m
Financial liabilities due to Life Company investors	9,814.1	8,811.3
Financial liabilities due to third parties <sup>1</sup>	2,611.8	2,444.6
	<b>12,425.9</b>	<b>11,255.9</b>

1. In accordance with accounting standards, the Group is deemed to hold a controlling interest in certain funds as a result of the investments held by the Life Company. This results in all of the assets and liabilities of those funds being consolidated within the Group's Consolidated statement of financial position and the third party interest in the fund being recorded as a financial liability due to third party investors.

The Group has no primary exposure to market risk, credit risk or liquidity risk in relation to the investments due to Life Company investors. The risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third party investors in the funds and not by the Life Company itself.

### Fair value measurements of Life Company financial assets and liabilities

Each of the Life Company's financial assets and liabilities has been categorised using a fair value hierarchy as shown below. These levels are based on the degree to which the fair value is observable and are defined in note 9.

	2019				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	
Assets backing unit-linked liabilities	8,724.3	2,596.2	29.5	1,075.9	12,425.9
Unit-linked liabilities	12,310.5	56.5	–	58.9	12,425.9

	2018				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	
Assets backing unit-linked liabilities	6,832.0	3,573.4	37.3	813.2	11,255.9
Unit-linked liabilities	10,992.4	64.4	–	199.1	11,255.9

The fair value of financial instruments not held at fair value approximates to their carrying value.

The types of investments found in each of the levels 1 and 3 for the Life Company are the same as those listed for the non-Life Company instruments in note 9. Level 2 investments principally comprise commercial paper, certificates of deposit, forward foreign exchange contracts and certain debt securities. No financial assets were transferred from level 1 to level 2 during the year.

Movements in financial assets categorised as level 3 during the year were:

	2019 £m	2018 £m
At 1 January	37.3	54.6
Exchange translation adjustments	(1.8)	0.3
Gains recognised in the income statement	2.7	10.7
Additions	1.4	–
Disposals	(10.1)	(28.3)
<b>At 31 December</b>	<b>29.5</b>	<b>37.3</b>

# Notes to the accounts continued

## 16. Trade and other payables

Trade and other payables includes amounts the Group is due to pay in the normal course of business, accruals and deferred income, being fees received in advance of services provided as well as deferred cash awards and bullion deposits by customers. Trade and other payables, other than deferred cash awards and bullion deposits, are recorded initially at fair value and subsequently at amortised cost (see note 9). Amounts due to the Group in the normal course of business are made up of creditors and accruals. Accruals represent costs, including remuneration, that are not yet billed or due for payment, but for which the goods or services have been received. Deferred cash awards, being deferred employee remuneration payable in cash, and bullion deposits by customers are recorded at fair value.

	2019			2018		
	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	–	145.0	145.0	–	177.7	177.7
Trade creditors	–	15.7	15.7	–	17.3	17.3
Social security	24.1	65.8	89.9	17.6	58.3	75.9
Accruals and deferred income	24.2	459.3	483.5	26.9	512.8	539.7
Other payables	0.2	25.9	26.1	13.2	20.2	33.4
	<b>48.5</b>	<b>711.7</b>	<b>760.2</b>	<b>57.7</b>	<b>786.3</b>	<b>844.0</b>
<b>Trade and other payables at fair value:</b>						
Deferred cash awards	83.4	72.7	156.1	73.2	62.3	135.5
Bullion deposits by customers	–	5.4	5.4	–	9.1	9.1
	<b>83.4</b>	<b>78.1</b>	<b>161.5</b>	<b>73.2</b>	<b>71.4</b>	<b>144.6</b>
	<b>131.9</b>	<b>789.8</b>	<b>921.7</b>	<b>130.9</b>	<b>857.7</b>	<b>988.6</b>

The fair value of trade and other payables held at amortised cost approximates to their carrying value. The fair value of bullion deposits by customers is derived from level 1 inputs (see note 9). The fair value of deferred cash awards is derived from level 1 inputs, being equal to the fair value of the units in funds to which the employee award is linked.

The Group's trade and other payables contractually mature in the following time periods:

	2019 £m	2018 £m
Less than 1 year <sup>1</sup>	789.8	857.7
1 – 2 years	59.6	48.7
2 – 5 years	72.1	68.5
More than 5 years	0.2	13.7
	<b>131.9</b>	<b>130.9</b>
	<b>921.7</b>	<b>988.6</b>

1. Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 21 working days (2018: 22 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 19), and the hedging of risk exposures within investment capital. Other financial liabilities at fair value mainly comprise liabilities that arise from financial obligations in respect of carried interest, contingent consideration and other financial liabilities arising from acquisitions completed by the Group, and third party interests in consolidated funds. Consolidation occurs when the Group is deemed to control a fund, usually in respect of Life Company or seed capital investments. When a fund is consolidated, the Group accounts for the fund in its statement of financial position as if it were wholly-owned by the Group, but records an additional liability representing the fair value of the proportion of the fund owned by third-party investors. Where the investment is held by the Life Company, the fair value of the proportion of the fund owned by third-party investors is shown as part of unit-linked liabilities (see note 15). Each instrument has been categorised within one of three levels using a fair value hierarchy (see note 9).

	2019				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
<b>Financial liabilities at amortised cost:</b>					
Client accounts	–	–	–	3,041.3	3,041.3
Deposits by banks	–	–	–	97.1	97.1
Other financial liabilities	–	–	–	7.3	7.3
	–	–	–	<b>3,145.7</b>	<b>3,145.7</b>
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative contracts (see note 19)	3.1	39.6	–	–	42.7
Other financial liabilities	187.6	–	155.1	–	342.7
	<b>190.7</b>	<b>39.6</b>	<b>155.1</b>	–	<b>385.4</b>
	<b>190.7</b>	<b>39.6</b>	<b>155.1</b>	<b>3,145.7</b>	<b>3,531.1</b>
	2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
<b>Financial liabilities at amortised cost:</b>					
Client accounts	–	–	–	3,235.5	3,235.5
Deposits by banks	–	–	–	19.8	19.8
Other financial liabilities	–	–	–	6.2	6.2
	–	–	–	<b>3,261.5</b>	<b>3,261.5</b>
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative contracts (see note 19)	3.2	18.9	–	–	22.1
Other financial liabilities	222.6	–	154.4	–	377.0
	<b>225.8</b>	<b>18.9</b>	<b>154.4</b>	–	<b>399.1</b>
	<b>225.8</b>	<b>18.9</b>	<b>154.4</b>	<b>3,261.5</b>	<b>3,660.6</b>

For the maturity profiles of client accounts, deposits by banks and derivative contracts see notes 19 and 20.

The fair value of financial liabilities held at amortised cost approximates to their carrying value.

	2019 £m	2018 £m
Current	3,386.8	3,527.0
Non-current	144.3	133.6
	<b>3,531.1</b>	<b>3,660.6</b>

# Notes to the accounts continued

## 17. Financial liabilities continued

### Estimates and judgements

The carrying value of financial liabilities may involve estimation or be derived from readily available sources. Financial liabilities have been categorised using a fair value hierarchy that reflects the extent of estimates and judgements used in the valuation (see note 9). The Group's financial liabilities categorised as level 3 principally consist of obligations arising from contingent consideration and other third party liabilities related to carried interest arrangements and other financial liabilities arising from prior acquisitions completed by the Group. Information about the estimates and judgements made in determining the fair value of carried interest payable is set out in note 2.

The carrying values of level 3 financial liabilities are typically derived from an estimate of the expected future cash flows required to settle the liability. These estimates reflect the projected performance of the acquired businesses for a number of years into the future.

Movements in financial liabilities categorised as level 3 during the year were:

	2019 £m	2018 £m
At 1 January	154.4	72.4
Exchange translation adjustments	(2.9)	4.4
Net (gain)/loss recognised in the income statement	(12.0)	38.1
Additions	54.4	47.4
Disposals and settlements	(38.8)	(7.9)
<b>At 31 December</b>	<b>155.1</b>	<b>154.4</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, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed where significant and are not included within the statement of financial position.

	Dilapidations £m	Legal, regulatory and other £m	Total £m
At 1 January 2019	5.7	25.7	31.4
Restatement on adoption of IFRS 16	11.8	–	11.8
Exchange translation adjustments	(0.3)	–	(0.3)
Provisions utilised	(0.8)	(2.1)	(2.9)
Additional provisions charged	0.4	–	0.4
Unused amounts reversed	(1.9)	(7.5)	(9.4)
Acquired	–	1.2	1.2
<b>At 31 December 2019</b>	<b>14.9</b>	<b>17.3</b>	<b>32.2</b>

## 18. Provisions and contingent liabilities continued

	Dilapidations £m	Legal, regulatory and other £m	Total £m
Current – 2019	0.7	3.2	3.9
Non-current – 2019	14.2	14.1	28.3
	<b>14.9</b>	<b>17.3</b>	<b>32.2</b>
Current – 2018	2.6	9.6	12.2
Non-current – 2018	3.1	16.1	19.2
	<b>5.7</b>	<b>25.7</b>	<b>31.4</b>

The Group's provisions are expected to mature in the following time periods:

	2019 £m	2018 £m
Less than 1 year	3.9	12.2
1 – 2 years	15.6	17.1
2 – 3 years	0.1	0.4
3 – 4 years	–	–
4 – 5 years	0.8	0.2
More than 5 years	11.8	1.5
	<b>28.3</b>	<b>19.2</b>
	<b>32.2</b>	<b>31.4</b>

The provision for dilapidations covers lease commitments with a weighted average maturity of 16 years (2018: 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 (2018: two years). These matters are ongoing.

### Estimates and judgements

The timing and amount of settlement of each legal claim or potential claim, regulatory matter and constructive obligation is uncertain. The Group applies judgement to determine whether a provision is required. The Group performs an assessment of the timing and amount of each event and reviews this assessment periodically. For some provisions there is greater certainty as the cash flows have largely been determined. Potential legal claims, regulatory related costs and other obligations to third parties arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. In certain circumstances, legal and regulatory claims can arise despite there being no error or breach. The Group's risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and estimation is required in determining the quantum and timing of that payment. As a result, there is also uncertainty over the timing and amount of any insurance recovery, although this does not change the likelihood of insurance cover being available, where applicable. The Group makes periodic assessments of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered in whole or in part by the Group's insurance arrangements. The Group has made provisions based on the reasonable expectation of likely outflows. The inherent uncertainty in such matters and the results of negotiations and insurance cover may result in different outcomes.

At 31 December 2019, there are no key judgements or estimates that would result in any additional material provisions being recognised or any material contingent liabilities being disclosed in the financial statements (31 December 2018: none). The provisions included in the financial statements at 31 December 2019 are based on estimates of reasonable ranges of likely outcomes, applying assumptions regarding the probability of payments being due and the settlement value. The aggregate reasonable ranges have been assessed as not materially different to the carrying values.



## Notes to the accounts continued

### 19. Derivative contracts

#### (a) The Group's use of derivatives

The Group holds derivatives for risk management, client facilitation and within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts, where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on financial instruments in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to help establish a new product rather than gain additional market exposure. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

The Group designates certain derivatives as hedges of a net investment in a foreign operation. In these scenarios, and where relevant conditions are met, hedge accounting is applied and the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives and its strategy for undertaking the various hedging transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of hedged items. In respect of hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. The Group's net investment hedges are generally fully effective, but any ineffective portion that may arise is recognised in the income statement. On disposal of the foreign operation, the cumulative gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

**Risk management:** the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal risk that the Group faces through such use of derivative contracts is credit risk.

**Client facilitation:** the Group's Wealth Management entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients. In carrying out this business, they transact as agent or as principal in financial assets and liabilities (including derivatives) in order to facilitate client portfolio requirements. Wealth Management's policy is to hedge, as appropriate, exchange rate and interest rate risk on its client facilitation positions. This does not eliminate credit risk.

For details of how the Group manages its exposure to credit risk, see below and note 20.

#### (b) Derivatives used by the Group

Forwards are contractual obligations to buy or sell foreign currency on a future date at a specified exchange rate. 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, the proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties in accordance with its internal policies and procedures.

Foreign exchange, equity and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty.

The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Futures contracts are standardised contracts to buy or sell specified assets for an agreed price at a specified future date. Contracts are negotiated at a futures exchange, which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

## 19. Derivative contracts continued

### (b) Derivatives used by the Group continued

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values are set out below:

	2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign exchange contracts	49.1	(29.1)	9.0	(13.0)
Equity contracts	10.2	(13.6)	29.3	(9.1)
	<b>59.3</b>	<b>(42.7)</b>	<b>38.3</b>	<b>(22.1)</b>
	2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Net-settled derivative contracts<sup>1</sup> maturing/repricing<sup>2</sup> in:</b>				
Less than 1 year	5.9	(13.6)	20.3	(9.1)
1 – 3 years	4.3	–	9.0	–
3 – 5 years	–	–	–	–
More than 5 years	–	–	–	–
	<b>10.2</b>	<b>(13.6)</b>	<b>29.3</b>	<b>(9.1)</b>
<b>Gross-settled derivatives<sup>3</sup> maturing/repricing<sup>2</sup> in less than 1 year:</b>				
Gross inflows	1,118.7	322.3	852.7	624.0
Gross outflows	(1,082.0)	(337.2)	(846.9)	(627.5)
Difference between future contractual cash flows and fair value	12.4	(14.2)	3.2	(9.5)
	<b>49.1</b>	<b>(29.1)</b>	<b>9.0</b>	<b>(13.0)</b>
	<b>59.3</b>	<b>(42.7)</b>	<b>38.3</b>	<b>(22.1)</b>

1. Interest rate and equity contracts.

2. Whichever is earlier.

3. Forward foreign exchange contracts.

# Notes to the accounts continued

## 20. Financial instrument risk management

The Group Capital Committee (GCC) is responsible for the management of the Group's capital and sets objectives for how it is deployed. This note explains how the Group manages its capital, setting out the nature of the risks the Group faces as a result of its operations, and how these risks are quantified and managed.

The Group is exposed to different forms of financial instrument risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the wellbeing of the Group.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of AUM and are therefore impacted by the financial instrument risk exposure of our clients – the secondary exposure. This note deals only with the direct or primary exposure of the risks from the Group's holding of financial instruments (see the Key risks and mitigations report on page 44).

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third party investors, consistent with other investment products managed by the Group. However, since the Life Company, which is a subsidiary, issues the investment instrument and holds the relevant financial assets, both the investments and the third party obligations are recorded in the statement of financial position. Financial instrument risk management disclosures in respect of the Life Company's financial instruments are set out in note 15.

### (a) Capital

The Group's approach to capital management is to maintain a strong capital position to enable us to invest in the future of the Group, in line with our strategy, and to support the risks inherent in conducting our business. Capital management is an important part of our risk management framework and is underpinned by our Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP considers the relevant current and future risks to the business and the capital we consider necessary to support these risks. We actively monitor our capital base to ensure we maintain sufficient and appropriate capital resources to cover the relevant risks to the business and to meet consolidated and local regulatory and working capital requirements.

Our lead regulator is the Prudential Regulation Authority (PRA) as the Group includes an entity with a UK banking licence. We are required to maintain adequate capital resources to meet our Total Capital Requirement (TCR) of £858 million (2018: £827 million). The TCR incorporates our Pillar 1 regulatory capital requirement of £679 million (2018: £605 million). In addition to the TCR of our banking group, we are required to hold additional capital of £269 million (2018: £194 million) in respect of our insurance companies and EU regulatory buffers. The Group's overall regulatory capital requirement was £1,127 million at 31 December 2019 (2018: £1,021 million).

In managing our capital position, we consider the composition of our capital base, which consists of: working capital deployed to support the Group's general operating activities and regulatory requirements; investment capital held in excess of these operating requirements; and other items that are not investible or otherwise available to meet our operating or regulatory requirements.

The table below shows the components of our capital position:

	2019 £m	2018 £m
Working capital – regulatory and other	1,216	1,341
Working capital – seed and co-investment	578	535
Investment capital – liquid	408	465
Investment capital – illiquid	148	165
Other items	1,498	1,115
<b>Total equity</b>	<b>3,848</b>	<b>3,621</b>

### (i) Working capital

The Group's policy is for subsidiaries to hold sufficient working capital to meet their regulatory and other operating requirements. Local regulators oversee the activities of, and impose minimum capital and liquidity requirements on, the Group's operating entities. At 31 December 2019, the Group complied with all externally imposed regulatory capital requirements.

Working capital is also deployed through certain subsidiaries to support new investment strategies and growth opportunities and to co-invest alongside the Group's clients.

## 20. Financial instrument risk management continued

### (a) Capital continued

#### (ii) Investment capital

Available capital held in excess of working capital requirements is transferred to investment capital. Investment capital is managed with the aim of achieving a low-volatility return. It is mainly held in investment grade corporate bonds and funds managed by the Group. Liquid investments are available to support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions. Investment capital also includes certain commercial private equity investments and illiquid legacy investments.

#### (iii) Other items

Other items comprises assets that are not investible or available to meet the Group's general operating or regulatory requirements. It includes assets that are actually or potentially inadmissible for regulatory capital purposes, principally goodwill, intangible assets and pension scheme surplus.

The tables below provide a detailed breakdown of the Group's capital in accordance with IFRS 9:

	2019				Total £m
	Financial instruments at amortised cost £m	Financial assets at fair value through other comprehensive income £m	Financial instruments at fair value through profit or loss <sup>1</sup> £m	Non-financial instruments £m	
<b>Assets</b>					
Cash and cash equivalents	2,660.3	–	–	–	2,660.3
Trade and other receivables	742.3	–	–	64.4	806.7
Financial assets:					
Loans and advances to banks	350.2	–	–	–	350.2
Loans and advances to clients	398.5	–	4.6	–	403.1
Debt securities	67.0	916.9	223.6	–	1,207.5
Pooled investment vehicles	–	–	670.4	–	670.4
Equities	–	–	325.9	–	325.9
Derivatives	–	–	59.3	–	59.3
Associates and joint ventures	–	–	–	398.0	398.0
Property, plant and equipment	–	–	–	652.3	652.3
Goodwill and intangible assets	–	–	–	1,133.4	1,133.4
Deferred tax	–	–	–	36.9	36.9
Retirement benefit scheme surplus	–	–	–	136.3	136.3
Assets backing unit-linked liabilities	1,075.9	–	11,350.0	–	12,425.9
<b>Total assets</b>	<b>5,294.2</b>	<b>916.9</b>	<b>12,633.8</b>	<b>2,421.3</b>	<b>21,266.2</b>
<b>Liabilities</b>					
Trade and other payables	670.3	–	156.1	95.3	921.7
Financial liabilities	3,145.7	–	385.4	–	3,531.1
Lease liabilities	425.3	–	–	–	425.3
Current tax	–	–	–	54.1	54.1
Provisions	–	–	–	32.2	32.2
Deferred tax	–	–	–	16.2	16.2
Retirement benefit scheme deficits	–	–	–	12.2	12.2
Unit-linked liabilities	58.9	–	12,367.0	–	12,425.9
<b>Total liabilities</b>	<b>4,300.2</b>	<b>–</b>	<b>12,908.5</b>	<b>210.0</b>	<b>17,418.7</b>
<b>Capital</b>					<b>3,847.5</b>

1. Financial assets at fair value through profit or loss includes £11,391.8 million of assets that are designated at fair value through profit or loss and £1,242.0 million that are mandatorily measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss includes £12,823.2 million of liabilities that are designated at fair value through profit or loss and £85.3 million that are mandatorily measured at fair value through profit or loss.

# Notes to the accounts continued

## 20. Financial instrument risk management continued

### (a) Capital continued

	2018				
	Financial instruments at amortised cost £m	Financial assets at fair value through other comprehensive income £m	Financial instruments at fair value through profit or loss <sup>1</sup> £m	Non-financial instruments £m	Total £m
<b>Assets</b>					
Cash and cash equivalents	2,683.4	–	–	–	2,683.4
Trade and other receivables	696.8	–	–	52.1	748.9
Financial assets:					
Loans and advances to banks	384.2	–	–	–	384.2
Loans and advances to clients	572.6	–	2.4	–	575.0
Debt securities	139.1	929.3	369.0	–	1,437.4
Pooled investment vehicles	–	–	700.4	–	700.4
Equities	–	–	219.6	–	219.6
Derivatives	–	–	38.3	–	38.3
Associates and joint ventures	–	–	–	175.2	175.2
Property, plant and equipment	–	–	–	249.4	249.4
Goodwill and intangible assets	–	–	–	968.2	968.2
Deferred tax	–	–	–	42.8	42.8
Retirement benefit scheme surplus	–	–	–	155.6	155.6
Assets backing unit-linked liabilities	813.2	–	10,442.7	–	11,255.9
<b>Total assets</b>	<b>5,289.3</b>	<b>929.3</b>	<b>11,772.4</b>	<b>1,643.3</b>	<b>19,634.3</b>
<b>Liabilities</b>					
Trade and other payables	768.1	–	135.5	85.0	988.6
Financial liabilities	3,261.5	–	399.1	–	3,660.6
Current tax	–	–	–	44.2	44.2
Provisions	–	–	–	31.4	31.4
Deferred tax	–	–	–	15.1	15.1
Retirement benefit scheme deficits	–	–	–	17.3	17.3
Unit-linked liabilities	199.1	–	11,056.8	–	11,255.9
<b>Total liabilities</b>	<b>4,228.7</b>	<b>–</b>	<b>11,591.4</b>	<b>193.0</b>	<b>16,013.1</b>
<b>Capital</b>					<b>3,621.2</b>

1. Financial assets at fair value through profit or loss includes £10,475.6 million of assets that are designated at fair value through profit or loss and £1,296.8 million that are mandatorily measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss includes £11,501.9 million of liabilities that are designated at fair value through profit or loss and £89.5 million that are mandatorily measured at fair value through profit or loss.

### (b) Credit risk, liquidity risk and market risk

The Group is exposed to credit, liquidity and market risk as a result of the financial instruments it holds. Settlement of financial instruments (on both a principal and agency basis) also gives rise to operational risk. The Group's risk management framework is critical to effective management of these risks and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Board, with responsibility for oversight delegated to the Audit and Risk Committee. The Group applies the three lines of defence model to risk management, which includes financial instrument risk. More details on the risk management framework and approach are set out in the Key risks and mitigations report and the Audit and Risk Committee report on pages 44 and 66 respectively.

#### (i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge their obligations. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within pricing risk.



## 20. Financial instrument risk management continued

### (b) Credit risk, liquidity risk and market risk continued

#### (i) Credit risk continued

The Group has exposure to credit risk from its normal activities where it is exposed to the risk that a counterparty will be unable to pay, in full, amounts when due. The Group carefully manages its exposure to credit risk by: approving lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for exposures to individual counterparties and sectors; and by taking security. The Group's maximum exposure to credit risk is represented by the gross carrying value of its financial assets.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Group's relevant financial assets held with rated and unrated counterparties is set out below:

	Cash and cash equivalents		Loans and advances to banks		Debt securities	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Credit rating:</b>						
AAA	320.9	374.3	–	–	172.3	356.5
AA+	16.4	0.9	8.5	–	9.2	12.6
AA	1,072.9	1,148.0	26.4	27.0	418.8	209.6
AA-	342.2	247.6	125.0	36.8	91.7	214.0
A+	446.7	489.6	157.4	256.6	98.4	95.6
A	318.2	249.8	24.1	42.9	60.7	142.7
A-	117.3	161.7	8.8	20.9	59.1	78.8
BBB+ and lower	24.0	7.1	–	–	186.3	270.3
Not rated	1.7	4.4	–	–	111.0	57.3
	<b>2,660.3</b>	<b>2,683.4</b>	<b>350.2</b>	<b>384.2</b>	<b>1,207.5</b>	<b>1,437.4</b>

Expected credit losses are calculated on all of the Group's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. Factors considered in determining whether a default has taken place include how many days past the due date a payment is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a counterparty's ability to pay.

A three stage model is used for calculating expected credit losses, which requires financial assets to be assessed as:

- Performing (stage 1) – Financial assets where there has been no significant increase in credit risk since original recognition;
- Under-performing (stage 2) – Financial assets where there has been a significant increase in credit risk since initial recognition, but no default; or,
- Non-performing (stage 3) – Financial assets that are in default.

For financial assets in stage 1, expected credit losses are calculated based on the credit losses that are expected to be incurred over the following 12-month period. For financial assets in stages 2 and 3, expected credit losses are calculated based on credit losses expected to be incurred over the life of the instrument. The Group applies the simplified approach to calculate expected credit losses for trade and other receivables. Under this approach, instruments are not categorised into three stages and expected credit losses are calculated based on the life of the instrument.

#### Wealth Management activities

All client credit requests are presented to the relevant Wealth Management approval authorities and counterparty exposures are monitored daily against limits. Loans, overdrafts and advances to clients, as well as certain derivative positions, are secured on a range of assets including real estate (both residential and commercial), cash, client portfolios and life insurance policies.

The Group does not usually provide loans, overdrafts or advances to clients on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply. Portfolios held as collateral are marked to market daily and positions compared to clients' exposures. Credit limits are set following an assessment of the market value and lending value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are expected to be or are breached, or if collateral is not sufficient to cover the outstanding exposure.

The collateral accepted by the Group includes certain investment-grade securities that can be sold or repledged without default of the provider. At 31 December 2019, the fair value of collateral that could be sold or repledged but had not been, relating solely to these arrangements, was £632.4 million (2018: £497.4 million).

Debt securities held within the Wealth Management treasury book are mainly unsecured. Policies covering various counterparty and market risk limits are set and monitored by the relevant Wealth Management asset and liability management committees. All instruments held within the Wealth Management treasury book have an investment grade credit rating.

## Notes to the accounts continued

### 20. Financial instrument risk management continued

#### (b) Credit risk, liquidity risk and market risk continued

##### (i) Credit risk continued

Wealth Management takes a conservative approach to its treasury investments, placing them with, or purchasing debt securities issued by, UK and overseas banks and corporates, central banks, supranational banks and sovereigns.

Expected credit losses on financial assets at amortised cost within the Wealth Management entities at 31 December 2019 were £0.3 million (2018: £0.4 million). Loans and advances to clients includes no under-performing (stage 2) loans (2018: £1.8 million) and £1.6 million of non-performing (stage 3) loans (2018: £0.2 million) giving rise to nil and £0.2 million of expected credit losses respectively (2018: £0.1 million and £0.2 million respectively). All other financial assets at amortised cost (excluding trade and other receivables to which the three stage model is not applied) were performing (stage 1) (2018: same).

Expected credit losses on financial assets at fair value through other comprehensive income within the Wealth Management entities at 31 December 2019 were £0.2 million (2018: £0.1 million). All financial assets at fair value through other comprehensive income were performing (stage 1) (2018: same).

##### Other activities

Fee debtors and other receivables arise as a result of the Group's asset management activities and amounts are monitored regularly. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

Fee debtors past due but not in default as at 31 December 2019 were £45.0 million (31 December 2018: £20.0 million), the majority of which were less than 90 days past due (31 December 2018: less than 90 days).

The Group seeks to manage its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach and through ongoing credit analysis. Corporate bond portfolios have an investment grade mandate, and exposure to sub-investment grade debt is low.

Derivative positions, other than forward foreign exchange contracts, are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Wealth Management entities are held primarily in current accounts, on deposit with well-rated banks, or invested in money market funds.

Expected credit losses on financial assets at amortised cost within non-Wealth Management entities at 31 December 2019 were £0.7 million (2018: £0.7 million). All financial assets at amortised cost (excluding trade and other receivables to which the three stage model is not applied) were performing (stage 1) (2018: same).

Expected credit losses on financial assets at fair value through other comprehensive income within non-Wealth Management entities at 31 December 2019 were £0.4 million (2018: £0.6 million). Debt securities includes £11.0 million of under-performing (stage 2) securities (2018: £11.3 million) giving rise to £0.1 million of expected credit losses (2018: £0.2 million). All other financial assets at fair value through other comprehensive income were performing (stage 1).

##### (ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost. The Group has a clearly defined liquidity risk management framework in place in the form of a Consolidated Group Internal Liquidity Adequacy Assessment Process (ILAAP). The Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements and have access to adequate liquidity for all activities undertaken in the normal course of business. As part of its ILAAP, the Group performs stress testing to confirm that sufficient liquidity is available to cover severe but plausible stress events.

##### Wealth Management activities

The principal liquidity risk in the Group's Wealth Management business arises as a result of its banking activities, where the timing of cash flows from liabilities relating to client accounts can be impacted by client action. The objective of the Group's liquidity policy is to maintain sufficient liquidity within the relevant entities to meet regulatory and prudential requirements, to cover cash flow imbalances and fluctuations in funding and the timely repayment of funds to depositors.

Liquidity positions are actively monitored and cash flows are managed so that sufficient liquidity is available to cover potential liquidity risks in individual currencies and in aggregate.

## 20. Financial instrument risk management continued

### (b) Credit risk, liquidity risk and market risk continued

#### (ii) Liquidity risk continued

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

	2019						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	
<b>Assets</b>							
Cash and cash equivalents	2,076.1	–	–	–	–	–	2,076.1
Loans and advances to banks	335.9	–	–	–	–	–	335.9
Loans and advances to clients	203.5	51.7	33.3	25.5	74.2	14.9	403.1
Debt securities	589.4	53.9	–	–	–	–	643.3
Other financial assets	12.4	–	–	–	–	–	12.4
<b>Total financial assets</b>	<b>3,217.3</b>	<b>105.6</b>	<b>33.3</b>	<b>25.5</b>	<b>74.2</b>	<b>14.9</b>	<b>3,470.8</b>
<b>Liabilities</b>							
Client accounts	3,041.3	–	–	–	–	–	3,041.3
Deposits by banks	97.1	–	–	–	–	–	97.1
Other financial liabilities	21.5	–	–	–	–	–	21.5
<b>Total financial liabilities</b>	<b>3,159.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,159.9</b>
<b>Cumulative gap</b>	<b>57.4</b>	<b>163.0</b>	<b>196.3</b>	<b>221.8</b>	<b>296.0</b>	<b>310.9</b>	<b>310.9</b>

	2018						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	
<b>Assets</b>							
Cash and cash equivalents	2,097.7	–	–	–	–	–	2,097.7
Loans and advances to banks	368.8	–	–	–	–	–	368.8
Loans and advances to clients	393.7	54.6	54.3	17.0	55.4	–	575.0
Debt securities	404.7	198.6	–	–	–	–	603.3
Other financial assets	4.2	–	–	–	–	–	4.2
<b>Total financial assets</b>	<b>3,269.1</b>	<b>253.2</b>	<b>54.3</b>	<b>17.0</b>	<b>55.4</b>	<b>–</b>	<b>3,649.0</b>
<b>Liabilities</b>							
Client accounts	3,232.8	1.1	1.6	–	–	–	3,235.5
Deposits by banks	19.8	–	–	–	–	–	19.8
Other financial liabilities	11.8	2.9	–	–	–	–	14.7
<b>Total financial liabilities</b>	<b>3,264.4</b>	<b>4.0</b>	<b>1.6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,270.0</b>
<b>Cumulative gap</b>	<b>4.7</b>	<b>253.9</b>	<b>306.6</b>	<b>323.6</b>	<b>379.0</b>	<b>379.0</b>	<b>379.0</b>

#### Other activities

The Group's exposure to liquidity risk outside of its Wealth Management activities is low. Excluding the Life Company and consolidated funds, the Asset Management and Group segment together hold cash and cash equivalents of £502.3 million (2018: £552.6 million). Financial liabilities relating to other operating entities are £371.2 million (2018: £390.6 million).

The Group has a committed loan facility of £510.0 million (2018: £510.0 million), which expires on 4 October 2024. The facility was undrawn at 31 December 2019 (31 December 2018: undrawn).

#### (iii) Market risk

Market risk is the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates.

#### Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital, seed and co-investment capital, deferred employee compensation in the form of fund awards and some investments held for regulatory capital purposes.

# Notes to the accounts continued

## 20. Financial instrument risk management continued

### (b) Credit risk, liquidity risk and market risk continued

#### (iii) Market risk continued

##### Pricing risk continued

The Group does not hedge exposures to pricing risk except in relation to seed capital, where it is practical to do so, and in respect of deferred employee compensation awards, where these can be matched by interests in funds managed by the Group. Where financial instruments are held to hedge deferred compensation awards, movements in the fair value of the asset are normally offset by changes in the amounts payable to employees (see note 4).

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

##### Wealth Management activities

In Wealth Management, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis. Interest rate risk is managed within set limits by matching asset and liability positions and through the use of interest rate swaps.

Sensitivity-based and stress-based models are used for monitoring interest rate risk. These models assess the impact of a prescribed basis point rise in interest rates, and potential impact of severe but plausible stress scenarios. The impact is calculated regularly for individual currency exposures and in aggregate.

##### Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months and is not exposed to significant interest rate risk.

The Group's capital includes investments in corporate investment-grade bonds managed by the Group's fixed income fund managers. The market risk (including interest rate risk) exposure of these investments is actively monitored against limits set by the Board.

##### Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

##### Wealth Management activities

In Wealth Management, some loans and advances to clients, client deposits and a proportion of the treasury activities are undertaken in foreign currencies. This is managed by the treasury departments within agreed limits that are set and monitored by the relevant risk committees.

##### Other activities

The Group's policy in relation to foreign exchange risks arising from revenue, expenditure and capital currency exposure from its Asset Management activities is generally not to hedge. The Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered to be a normal part of the Group's business activities.

The Group also has exposure to foreign currency through investments in currencies other than sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement, as appropriate. The use of such instruments is subject to approval by the GCC.

The sensitivities to market risk are estimated as follows:

Variable <sup>1</sup>		31 December 2019		31 December 2018	
		A reasonable change in the variable within the next calendar year %	Increase/(decrease) in post-tax profit £m	A reasonable change in the variable within the next calendar year %	Increase/(decrease) in post-tax profit £m
Interest rates <sup>2</sup>	-increase	0.8	4	1.0	4
	-decrease	(0.5)	(2)	(0.5)	(2)
US dollar against sterling	-strengthen	10	3	15	2
	-weaken	(10)	(2)	(20)	(2)
Euro against sterling	-strengthen	8	1	7	1
	-weaken	(8)	(1)	(10)	(1)
US dollar against Euro	-strengthen	10	3	7	2
	-weaken	(10)	(2)	(10)	(2)
FTSE-All Share Index <sup>3</sup>	-increase	20	39	20	42
	-decrease	(20)	(39)	(20)	(42)

1. The underlying assumption is that there is one variable increase/decrease with all other variables held constant.

2. Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

3. Assumes that changes in the FTSE-All Share Index correlate to changes in the fair value of the Group's equity investments.

The reasonable changes in variables will have no impact on any other components of equity. These sensitivities concern only the direct impact on financial instruments and exclude indirect impacts on fee income and certain costs that may be affected by changes in the variable. The changes used in the sensitivity analysis were provided by the Group's Global Economics team who determine reasonable assumptions.

## 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 did not arise in 2018 or 2019. 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 2019	282.5	226.0	56.5	282.5	124.2
<b>At 31 December 2019</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>124.2</b>
	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2018	282.5	226.0	56.5	282.5	124.2
<b>At 31 December 2018</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>124.2</b>

	2019 Number of shares Millions	2018 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 that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.



# Notes to the accounts continued

## 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. This enables the Group to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Own shares are held at cost and their purchase reduces the Group's net assets by the amount spent. When shares vest unconditionally or are cancelled, they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements in own shares during the year were as follows:

	2019 £m	2018 £m
At 1 January	(163.9)	(162.3)
Own shares purchased	(81.0)	(74.9)
Awards vested	75.8	73.3
<b>At 31 December</b>	<b>(169.1)</b>	<b>(163.9)</b>

During the year 2.8 million own shares (2018: 2.2 million own shares) were purchased and held for hedging share-based awards. 2.8 million shares (2018: 2.8 million shares) awarded to employees vested in the period and were transferred out of own shares.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2019			2018		
	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	2.0	6.3	8.3	2.7	6.3	9.0
Non-voting ordinary shares	–	0.1	0.1	–	0.1	0.1
	<b>2.0</b>	<b>6.4</b>	<b>8.4</b>	<b>2.7</b>	<b>6.4</b>	<b>9.1</b>

	2019			2018		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	43.9	168.4	212.3	57.1	162.8	219.9
Fair value	66.5	210.7	277.2	65.0	153.8	218.8
Non-voting ordinary shares:						
Cost	0.1	0.7	0.8	0.1	1.1	1.2
Fair value	0.7	1.0	1.7	0.6	1.4	2.0
<b>Total:</b>						
<b>Cost</b>	<b>44.0</b>	<b>169.1</b>	<b>213.1</b>	<b>57.2</b>	<b>163.9</b>	<b>221.1</b>
<b>Fair value</b>	<b>67.2</b>	<b>211.7</b>	<b>278.9</b>	<b>65.6</b>	<b>155.2</b>	<b>220.8</b>

### 23. Reconciliation of net cash from operating activities

This note should be read in conjunction with the Consolidated cash flow statement. It provides a reconciliation to show how profit before tax, which is based on accounting rules, translates to cash flows.

	2019 £m	2018 £m
<b>Profit before tax</b>	<b>624.6</b>	<b>649.9</b>
<b>Adjustments for income statement non-cash movements:</b>		
Depreciation of property, plant and equipment and amortisation of intangible assets	138.7	80.8
Net gain on financial instruments	(28.3)	52.3
Share-based payments	61.6	63.9
Net release for provisions	(9.0)	(0.6)
Other non-cash movements	(20.9)	(20.3)
	<b>142.1</b>	<b>176.1</b>
<b>Adjustments for which the cash effects are investing or financing activities:</b>		
Net finance income	(8.3)	(8.4)
Interest expense on lease liabilities	12.4	–
Share of profit of associates and joint ventures	(27.2)	(19.1)
	<b>(23.1)</b>	<b>(27.5)</b>
<b>Adjustments for statement of financial position movements:</b>		
Decrease in loans and advances within Wealth Management	198.8	406.2
Increase in trade and other receivables	(101.0)	(36.2)
Decrease in deposits and client accounts within Wealth Management	(101.5)	(545.2)
(Decrease)/increase in trade and other payables, other financial liabilities and provisions	(57.5)	12.0
	<b>(61.2)</b>	<b>(163.2)</b>
<b>Adjustments for Life Company and consolidated pooled investment vehicles movements:</b>		
Net (increase)/decrease in financial assets backing unit-linked liabilities	(795.6)	2,756.2
Net increase/(decrease) in unit-linked liabilities	1,170.0	(2,730.5)
Net increase/(decrease) in cash within consolidated pooled investment vehicles	48.8	(4.1)
	<b>423.2</b>	<b>21.6</b>
<b>Tax paid</b>	<b>(103.6)</b>	<b>(143.0)</b>
<b>Net cash from operating activities</b>	<b>1,002.0</b>	<b>513.9</b>

# Notes to the accounts continued

## 24. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but do not yet represent a liability or impact the Group's financial results for the year, except in the case of operating leases where the Group is the lessee. For these leases, a lease liability is recognised in the Group's statement of financial position and a maturity analysis of the liabilities is shown below. Previously under IAS 17, such commitments were not recorded in the Group's statement of financial position.

The Group's commitments primarily relate to operating lease commitments, investment call commitments, commitments for the purchase of property, plant and equipment and commitments under IT service agreements.

The Group sublets a small number of its owned and leased properties where such properties, or parts of such properties, are not required for use by the Group. The table below discloses the commitments sub-lessees have made in respect of such arrangements. These commitments are not recorded on the statement of financial position in advance of the period to which they relate.

	2019			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	50.0	142.7	354.7	547.4
Undrawn loan facilities	–	47.9	–	47.9
Investment call commitments	32.3	–	2.1	34.4
Commitments for purchase of property, plant and equipment	2.2	1.4	–	3.6
Commitments under IT service agreements	12.0	34.5	–	46.5
<b>Total commitments</b>	<b>96.5</b>	<b>226.5</b>	<b>356.8</b>	<b>679.8</b>
Operating leases receivable as lessor	(1.2)	(3.8)	(1.9)	(6.9)
<b>Net commitments payable</b>	<b>95.3</b>	<b>222.7</b>	<b>354.9</b>	<b>672.9</b>

	2018			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	30.0	160.5	309.6	500.1
Undrawn loan facilities	14.6	18.0	–	32.6
Investment call commitments	29.4	13.8	1.1	44.3
Commitments for purchase of property, plant and equipment	18.0	0.3	–	18.3
Commitments under IT service agreements	25.4	50.5	–	75.9
<b>Total commitments</b>	<b>117.4</b>	<b>243.1</b>	<b>310.7</b>	<b>671.2</b>
Operating leases receivable as lessor	(1.5)	(3.6)	(0.2)	(5.3)
<b>Net commitments payable</b>	<b>115.9</b>	<b>239.5</b>	<b>310.5</b>	<b>665.9</b>

Office property sub-leases have a weighted average term of 4.1 years (2018: 3.6 years) and rentals are fixed for a weighted average term of 4.1 years (2018: 3.6 years). Lease payments recognised as an expense were £52.7 million, see note 12 (2018: £37.3 million).

## 25. Retirement benefit obligations

The Group has two principal 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:

	2019 £m	2018 £m
Pension costs – defined contribution plans	51.6	47.9
Pension credit – defined benefit plans	(7.7)	(2.5)
Other post-employment benefits	0.2	0.2
	<b>44.1</b>	<b>45.6</b>

### (i) Profile of the Scheme

The Scheme is administered by a trustee company, Schroder Pension Trustee Limited (the Trustee). The board of the Trustee comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for setting the investment strategy and for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for making investment strategy recommendations to the board of the Trustee and for monitoring the performance of the investment manager.

Under the Scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011 (the date the DB section of the Scheme closed for future accrual), actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5% for pensions accrued after 12 August 2007 and 5.0% for pensions accrued before that date.

As at 31 December 2019, there were no active members in the DB section (2018: nil) and 2,127 active members in the DC section (2018: 1,973). The weighted average duration of the Scheme's DB obligation is 18 years (2018: 18 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2019	2018
Number of deferred members	1,251	1,327
Total deferred pensions (at date of leaving Scheme)	£9.4m per annum	£10.0m per annum
Average age (deferred)	52	52
Number of pensioners	885	849
Average age (pensioners)	70	70
Total pensions in payment	£20.4m per annum	£19.6m per annum

### (ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required (2017: nil). The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

# Notes to the accounts continued

## 25. Retirement benefit obligations continued

### (iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy that aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme.

The most significant risks to which the Scheme exposes the Group are:

#### Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will reduce the surplus or may create a deficit. The Group manages this risk by holding 64% (2018: 51.6%) of Scheme assets in an LDI portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but that can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

#### Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collateralised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is BBB.

#### Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio, which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme's exposure to changes in gilt yields.

#### Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme's exposure to inflation risk.

#### Life Expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

### (iv) Reporting at 31 December

The principal financial assumptions used for the Scheme are:

	2019 %	2018 %
Discount rate	2.1	2.9
RPI inflation rate	3.1	3.3
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	3.0	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.2
<b>Average number of years a current pensioner is expected to live beyond age 60:</b>	<b>Years</b>	<b>Years</b>
Men	28	28
Women	29	29
<b>Average number of years future pensioners currently aged 45 are expected to live beyond age 60:</b>	<b>Years</b>	<b>Years</b>
Men	29	29
Women	30	30

Net interest income is determined by applying the discount rate to the opening net surplus in the Scheme. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality, long dated corporate bonds that are denominated in the currency in which the benefits will be paid.



## 25. Retirement benefit obligations continued

### Estimates and judgements

The Group estimates the carrying value of the Scheme by applying judgement to determine the assumptions as set out on page 156 to determine the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. The sensitivity to those assumptions is set out below. The most significant judgemental assumption relates to mortality rates, which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2018: 1.0%) per annum. An additional adjustment, an "A parameter" set to 0.5% per annum, introduced this year, allows for the typically higher rate of mortality improvement among members of the Scheme compared to general population statistics. Mortality tables for male pensioners are scaled back by 2.5% (2018: 5%) and female pensioners are scaled back by 7.5% (2018: 10%) to reflect the history of longer life expectancy of the Group's employees.

The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2019.

The amounts recognised in the income statement are:

	2019 £m	2018 £m
Interest income on Scheme assets	(27.1)	(26.1)
Interest cost on Scheme liabilities	22.6	21.9
<b>Net interest income recognised in the income statement in respect of the Scheme</b>	<b>(4.5)</b>	<b>(4.2)</b>
Income statement (credit)/charge in respect of other defined benefit schemes	(3.2)	1.7
<b>Total defined benefit schemes income statement credit</b>	<b>(7.7)</b>	<b>(2.5)</b>

The amounts recognised in the statement of comprehensive income are:

	2019 £m	2018 £m
(Return)/loss on Scheme assets in excess of that recognised in interest income	(54.6)	56.8
Actuarial gains due to change in demographic assumptions	(6.4)	(18.3)
Actuarial losses/(gains) due to change in financial assumptions	90.4	(36.3)
Actuarial (gains)/losses due to experience	(5.6)	9.3
<b>Total other comprehensive loss in respect of the Scheme</b>	<b>23.8</b>	<b>11.5</b>
Other comprehensive (income)/loss in respect of other defined benefit schemes	(0.6)	0.1
<b>Total other comprehensive loss in respect of defined benefit schemes</b>	<b>23.2</b>	<b>11.6</b>

The sensitivity of the Scheme pension liabilities to changes in assumptions are:

Assumption	Assumption change	2019		2018	
		Estimated (increase)/decrease in pension liabilities £m	Estimated (increase)/decrease in pension liabilities %	Estimated (increase)/decrease in pension liabilities £m	Estimated (increase)/decrease in pension liabilities %
Discount rate	Increase by 0.5% per annum	71.7	8.3	65.8	8.3
Discount rate	Decrease by 0.5% per annum	(84.0)	(9.7)	(72.1)	(9.1)
Expected rate of pension increases	Increase by 0.5% per annum	(65.3)	(7.5)	(56.3)	(7.1)
Expected rate of pension increases	Decrease by 0.5% per annum	67.3	7.8	52.6	6.6
Life expectancy	Increase by one year	(37.9)	(4.4)	(32.3)	(4.1)
Life expectancy	Decrease by one year	37.5	4.3	33.5	4.2

# Notes to the accounts continued

## 25. Retirement benefit obligations continued

Movements in respect of the assets and liabilities of the Scheme are:

	2019 £m	2018 £m
At 1 January	951.2	1,029.2
Interest on assets	27.1	26.1
Remeasurement of assets	54.6	(56.8)
Benefits paid	(31.4)	(47.3)
<b>Fair value of plan assets</b>	<b>1,001.5</b>	<b>951.2</b>
At 1 January	(795.6)	(866.3)
Interest cost	(22.6)	(21.9)
Actuarial gains due to change in demographic assumptions	6.4	18.3
Actuarial (losses)/gains due to change in financial assumptions	(90.4)	36.3
Actuarial gains/(losses) losses due to experience	5.6	(9.3)
Benefits paid	31.4	47.3
<b>Present value of funded obligations</b>	<b>(865.2)</b>	<b>(795.6)</b>
<b>Net assets</b>	<b>136.3</b>	<b>155.6</b>

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 2019, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

The fair value of the Scheme's plan assets at the year end date are:

	2019		2018	
	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	643.2	–	491.3	12.9
Bonds (excluding those held as part of the liability-driven investment portfolio)	–	–	78.8	–
Portfolio funds	345.6	6.1	348.0	7.8
Exchange-traded futures and over-the-counter derivatives	(7.8)	(8.1)	(5.7)	(4.2)
Cash	20.5	–	38.8	–
	<b>1,001.5</b>	<b>(2.0)</b>	<b>951.2</b>	<b>16.5</b>

## 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 in full until three years after the award has been made, although conditions vary between different types of award. The accounting for share-based awards settled by transferring shares to the employees (equity-settled) differs from the accounting for similar awards settled in cash (cash-settled). The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date or, in the case of grandfathered awards arising on business combinations, the fair value of the share awards at the acquisition date. Such awards can include share options or share awards that may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This initial fair value is charged to the income statement reflecting benefits received from employment, where relevant, in the performance period and over the vesting period. The income statement charge is offset by a credit to the statement of changes in equity, where the award is expected to be settled through the issue of shares. Such awards constituted 7.2% (2018: 7.6%) of salaries, wages and other remuneration (see note 4).

The Group may make share-based payments to employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares. These arrangements involve a maximum term of 10 years.

It is the Group's practice to hedge all awards to eliminate the impact of changes in the market value of shares between the grant date and the exercise date.

Awards that lapse or are forfeited during the vesting period result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Group recognised total expenses of £63.7 million (2018: £63.8 million) arising from share-based payment transactions during the year, of which £61.6 million (2018: £63.9 million) were equity-settled share-based payment transactions. In 2019, there were total exceptional costs of £4.6 million included within equity-settled share-based payments (2018: £10.6 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 three-year vesting period of the awards. Awards are structured as nil-cost options.

	2019		2018	
	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	5.5	0.1	6.5	0.3
Granted	0.9	–	0.9	–
Forfeited	(0.1)	–	(0.1)	–
Exercised	(2.4)	–	(1.8)	(0.2)
<b>Rights outstanding at 31 December</b>	<b>3.9</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>
Vested	1.4	0.1	2.2	–
Unvested	2.5	–	3.3	0.1
Weighted average fair value of shares granted (£)	25.49	–	33.22	–
Weighted average share price at dates of exercise (£)	28.76	19.83	33.08	23.72

The weighted average exercise price per share is nil.

A charge of £21.6 million (2018: £25.6 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
2020	5.6
2021	1.5
2022	–
	<b>7.1</b>

# Notes to the accounts continued

## 26. Share-based payments continued

### (b) Deferred Award Plan

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. Fair value is determined at the date of grant and is equal to the market value of the shares at that time. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting periods of the awards. Typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date. Awards are structured as nil-cost options.

	2019 Number of ordinary shares Millions	2018 Number of ordinary shares Millions
Rights outstanding at 1 January	1.2	–
Granted	1.9	1.3
Forfeited	(0.1)	(0.1)
Exercised	(0.2)	–
<b>Rights outstanding at 31 December</b>	<b>2.8</b>	<b>1.2</b>
Vested	0.1	–
Unvested	2.7	1.2
Weighted average fair value of shares granted (£)	26.54	33.41
Weighted average share price at date of exercise (£)	27.35	–

The weighted average exercise price per share is nil.

A charge of £32.5 million (2018: £29.6 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Deferred Award Plan to be expensed in future years:

	£m
2020	11.3
2021	4.6
2022	4.0
	<b>19.9</b>

### (c) Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value as 'Operating expenses' to the income statement, over a five-year vesting period. Fair value is determined at the date of grant and is equal to the market value of the shares at that time. Awards are structured as nil-cost options.

	2019 Number of ordinary shares Millions	2018 Number of ordinary shares Millions
Rights outstanding at 1 January	2.0	2.1
Granted	0.2	0.2
Forfeited	(0.1)	(0.1)
Exercised	(0.7)	(0.2)
<b>Rights outstanding at 31 December</b>	<b>1.4</b>	<b>2.0</b>
Vested	0.4	0.5
Unvested	1.0	1.5
Weighted average fair value of shares granted (£)	32.19	26.81
Weighted average share price at dates of exercise (£)	31.08	25.06

The weighted average exercise price per share is nil.

A charge of £5.3 million (2018: £7.4 million) was recognised during the financial year.

## 26. Share-based payments continued

### (c) Equity Incentive Plan continued

The table below shows the expected charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2020	5.1
2021	3.7
2022	2.3
2023	1.5
2024	0.7
	<b>13.3</b>

### (d) Long Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares at the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year end date of the extent to which the performance conditions are expected to be met. Awards are structured as nil-cost options.

	2019		2018	
	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	0.1	0.1	0.2	0.1
Granted	0.1	–	–	–
Forfeited	(0.1)	–	(0.1)	–
Exercised	–	–	–	–
<b>Rights outstanding at 31 December – unvested</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Weighted average fair value of shares granted (£)	21.32	–	29.31	–
Weighted average share price at dates of exercise (£)	–	19.82	34.25	23.72

The weighted average exercise price per share is nil.

A charge of £0.4 million (2018: £0.4 million credit) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Long Term Incentive Plan to be expensed in future years:

	£m
2020	0.3
2021	0.2
2022	0.1
	<b>0.6</b>

### (e) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase of shares up to a maximum of £100 per month. The shares vest after one year.

Pursuant to this plan, the Group purchased 68,291 ordinary shares in 2019 (2018: 61,046) at a weighted average share price of £28.91 (2018: £30.84). A charge of £1.8 million (2018: £1.7 million) was recognised during the financial year.



# Notes to the accounts continued

## 26. Share-based payments continued

### (f) Cash-settled share-based awards

Certain employees have been awarded cash-settled equivalents to these share-based awards. The fair value of these awards is determined using the same methods and models used to value the equivalent equity-settled awards. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

At 31 December 2019, the total carrying value of liabilities arising from cash-settled share-based awards was £4.1 million (2018: £2.6 million). The total intrinsic value at 31 December 2019 of liabilities for which the employee's right to cash or other assets had vested by that date was £2.3 million (2018: £0.6 million).

A charge of £2.1 million (2018: credit of £0.1 million) was recognised during the financial year. This charge has arisen as the liability was remeasured at the balance sheet date at a share price of £33.34 (31 December 2018: £24.43).

## 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 Consolidated cash flow statement and in note 10.

£56.5 million (2018: £55.7 million) was held in customer accounts in respect of amounts payable to key management personnel or their related parties.

Included within loans and advances to clients are amounts owed from related parties of £0.4 million (2018: £4.3 million). All related party loans and advances were at commercial rates.

Some of the plan assets of the Schroders Retirement Benefit Scheme are invested in products managed by the Life Company (see note 15). At 31 December 2019, the fair value of these assets was £169.8 million (2018: £219.5 million).

At 31 December 2019, Peter Harrison had an interest of 100,252 shares (2018: 100,252) in an associate of the Group, RWC Partners Limited, representing 5.3% (2018: 5.4%) of its issued share capital. On 31 January 2020, Peter Harrison disposed of this interest at the same time and on the same terms as the Group disposed of its interest.

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	2019 £m	2018 £m
Short-term employee benefits	Salary and upfront bonus	22.3	21.6
Share-based payments	Deferred share awards	13.2	13.0
Other long-term benefits	Deferred cash awards	13.1	14.1
Termination benefits	Termination benefits	0.3	–
Post-employment benefits	Pension plans	0.1	0.1
		<b>49.0</b>	<b>48.8</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 at [schroders.com/directors-remuneration-policy](https://www.schroders.com/directors-remuneration-policy).

## 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. AUM, excluding deposits by Wealth Management clients and some segregated client portfolios held within the the Group's Asset Management business, is managed within structured entities. These structured entities typically consist of investment vehicles such as Open Ended Investment Companies, Authorised Unit Trusts, Limited Partnerships and Sociétés d'Investissement à Capital Variable, which entitle investors to a percentage of the vehicle's net asset value. The vehicles are financed by the purchase of units or shares by investors. The Group also has interests in structured entities through proprietary investments. These are mainly into vehicles that help facilitate the Group's stated aim of generating a return on investment capital and when it deploys seed and co-investment capital in developing new investment strategies. Additionally, the Group holds interests in structured entities for liquidity management purposes, for example via investments in money market funds.

The Group does not guarantee returns on the investments it manages or commit to financially support its structured entities. A small proportion of the Group's AUM, principally real estate funds, is permitted to raise finance through loans from banks and other financial institutions. Where external finance is raised, the Group does not provide a guarantee for the repayment of any borrowings.

The business activity of all structured entities in which the Group has an interest, is the management of assets in order to generate investment returns for investors from capital appreciation and/or investment income. The Group earns a management fee from its structured entities, normally based on a percentage of the entity's net asset value, committed capital value or gross asset value and, where contractually agreed, a performance fee or carried interest, based on outperformance against predetermined benchmarks. In addition, where the Group owns a proportion of the structured entity it is entitled to receive investment returns.

### (a) Interests arising from managing assets

The Group's interests in structured entities arising as a result of contractual relationships from its principal activity, the management of assets on behalf of its clients, are reflected in the Group's AUM.

	2019			
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	Total £bn
Asset Management	222.4	10.4	200.7	433.5
Wealth Management	60.0	–	6.7	66.7
	<b>282.4</b>	<b>10.4</b>	<b>207.4</b>	<b>500.2</b>

	2018			
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	Total £bn
Asset Management	167.8	9.4	186.3	363.5
Wealth Management	37.6	–	6.1	43.7
	<b>205.4</b>	<b>9.4</b>	<b>192.4</b>	<b>407.2</b>

Certain AUM is managed in pooled vehicles that are not considered to be structured entities. Within Asset Management, this occurs either because it is formed of segregated investment portfolios for institutional clients comprising directly-held investments in individual financial instruments, or because the voting structures of the vehicles themselves allow the investment manager to be removed without cause. Within Wealth Management, AUM is not considered to be within structured entities due to contractual relationships existing with clients rather than structured entities, for example discretionary and advisory asset management and banking services. In addition, Wealth Management AUM in the form of loans and advances to customers is conducted outside of structured entities.

Certain structured entities are deemed to be controlled by the Group and are accounted for as subsidiaries and consolidated in accordance with IFRS 10. AUM within consolidated structured entities represents the net assets of the beneficial interest in the consolidated structured entity owned by third parties.

AUM within unconsolidated structured entities constitutes the remaining balance, represented principally by the net asset value of pooled vehicles managed for Intermediary clients, as well as some assets invested in pooled vehicles on behalf of Institutional and Wealth Management clients. The Group's beneficial interest in structured entities is not included within AUM and is described separately overleaf.

The Group has no direct exposure to losses in relation to the AUM reported above, as the investment risk is borne by clients. The main risk the Group faces from its interest in AUM managed on behalf of clients is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations.

# Notes to the accounts continued

## 28. Interests in structured entities continued

### (a) Interests arising from managing assets continued

Fee income includes £1,346.7 million (2018: £1,445.6 million) of fees from structured entities managed by the Group. The table below shows the carrying value of the Group's interests in structured entities as a result of its management of assets, where income is accrued over the period for which assets are managed before being invoiced. The carrying value represents the Group's maximum exposure to loss from these interests.

	2019 £m	2018 £m
Fee debtors	24.5	16.7
Accrued income	167.2	213.1
<b>Total exposure due to asset management activities</b>	<b>191.7</b>	<b>229.8</b>

### (b) Interest arising from the Group's investment in unconsolidated structured entities

The table below shows the carrying values of the Group's proprietary investments in unconsolidated structured entities, which resulted in a net gain on financial instruments and other income of £3.1 million (2018: loss of £3.8 million). The carrying values represent the Group's maximum exposure to loss from these interests.

	2019 £m	2018 £m
Cash and cash equivalents	141.2	61.9
Financial assets	446.2	575.4
<b>Total exposure due to the Group's investments</b>	<b>587.4</b>	<b>637.3</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 £3.5 million (2018: £3.0 million) is managed by the Group. Financial assets comprise investments in pooled vehicles and legacy private equity investments and include seed and co-investment capital and hedges of deferred cash awards. Of the financial assets, £445.3 million (2018: £574.2 million) is invested in funds managed by the Group. The Group has no interest apart from its role as investor in those funds for which it does not act as manager. The main risk the Group faces from its interests in unconsolidated structured entities arising from proprietary investments is that the investments will decrease in value. Note 20 includes further information on the Group's exposure to market risk arising from proprietary investments.

The Group has contractual commitments to co-invest alongside its clients and provide a minimum level of capital for certain private assets and alternative vehicles. The Group's investment call commitments are set out in note 24.

The Group's statement of financial position also includes the Life Company assets of £12,425.9 million (2018: £11,255.9 million), which are included in the AUM information presented on page 27. 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 £214.0 million (2018: £173.0 million) to provide seed capital to investment funds managed by the Group, of which £133.8 million (2018: £112.6 million) resulted in the consolidation of those funds and £80.2 million (2018: £60.4 million) did not.

## 29. Business combinations

The Group applies the acquisition method to account for business combinations. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and any equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from contingent or deferred consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest (NCI) at the fair value of the proportionate share of the acquiree's identifiable net assets.

The Group completed seven business combinations during the year.

The most significant of these transactions completed on 31 October 2019 when the Group acquired 70% of the issued share capital of BlueOrchard Finance AG (BlueOrchard), a leading impact investment manager, specialising in fostering inclusive finance and sustainable growth, for a total consideration of £90.6 million. The acquisition contributed £2.9 billion of Asset Management AUM and strengthens the Group's Private Asset capabilities.

On 24 May 2019, the Group acquired 100% of the issued share capital of Blue Asset Management GmbH (Blue Asset Management), a real estate asset management business, for a total consideration of £22.8 million. The acquisition contributed £1.0 billion of Asset Management AUM and strengthens the Group's Private Asset capabilities.

The Group completed five further acquisitions during the year for a combined consideration of £31.9 million. These acquisitions contributed £2.3 billion of Wealth Management AUM and increase the scale and capability of the Group's Wealth Management business.

### Net assets acquired

The fair values of the net assets acquired in the transactions together with the goodwill and intangible assets arising are as follows:

	BlueOrchard £m	Blue Asset Management £m	Other £m	Total £m
<b>Net assets acquired:</b>				
Cash	12.4	0.6	1.0	14.0
Property, plant and equipment	–	0.8	–	0.8
Trade and other receivables	4.5	1.2	0.2	5.9
Other assets	3.0	–	–	3.0
Trade and other payables	(9.6)	(0.9)	(0.2)	(10.7)
Lease liabilities	–	(0.8)	–	(0.8)
Other liabilities	(1.8)	–	(0.6)	(2.4)
<b>Tangible net assets</b>	<b>8.5</b>	<b>0.9</b>	<b>0.4</b>	<b>9.8</b>
Goodwill	66.0	17.7	20.8	104.5
Intangible assets arising on acquisition	32.0	5.0	12.9	49.9
Deferred tax arising on acquisition	(5.4)	(0.8)	(2.2)	(8.4)
Non-controlling interest	(10.5)	–	–	(10.5)
<b>Total</b>	<b>90.6</b>	<b>22.8</b>	<b>31.9</b>	<b>145.3</b>

	£m	£m	£m	Total £m
<b>Satisfied by:</b>				
Cash	90.6	22.8	24.8	138.2
Contingent consideration	–	–	3.9	3.9
Deferred consideration	–	–	3.2	3.2
<b>Total</b>	<b>90.6</b>	<b>22.8</b>	<b>31.9</b>	<b>145.3</b>

## Notes to the accounts continued

### 29. Business combinations continued

The goodwill arising on the acquisitions is attributable to the value arising from:

- Additional investment capabilities;
- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain activities.

Goodwill will not be deductible for tax purposes.

In the period between the acquisition dates and 31 December 2019, the seven acquired businesses contributed £18.3 million to the Group's net income. The contribution to profit before tax and exceptional items was £9.0 million and exceptional costs of £4.6 million were incurred in respect of amortisation of the acquired intangible assets and deferred compensation costs. Additionally, acquisition costs of £4.0 million were recorded within 'Operating expenses' and classified as exceptional in the Consolidated income statement.

If the acquisitions had been completed on 1 January 2019, the Group's pre-exceptional net income for the year would have been £2,175.3 million and the profit before tax and exceptional items for the year on the same basis would have been £725.2 million.

#### Estimates and judgements

The fair value of certain items of consideration, assets acquired and liabilities assumed requires some estimation. For intangible assets and contingent consideration payable, this estimation required assumptions regarding the level of future management fees that will be earned over the relevant period.

The net impact of changes to these assumptions would be to change the carrying value of individual assets and liabilities with a corresponding change to goodwill.



## Presentation of the financial statements

### (a) Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union, which comprises Standards and Interpretations approved by either the IASB or the IFRS Interpretations Committee or their predecessors, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are held at fair value through profit or loss or at fair value through other comprehensive income, liabilities in respect of deferred cash awards and certain deposits both with banks and by customers and banks (including those that relate to bullion).

The statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's statement of financial position.

The Group's principal accounting policies have been consistently applied. Further information is provided below and highlighted in the notes to the accounts.

### (b) New accounting standards and interpretations

The Group has applied IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) from 1 January 2019. The nature and effect of these changes are disclosed below.

#### IFRS 16 Leases

IFRS 16 Leases (IFRS 16) replaces IAS 17 Leases and became effective on 1 January 2019.

On adoption of IFRS 16, the Group has calculated the ROU asset as if the standard had always been applied but based on an incremental borrowing rate at 1 January 2019. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the appropriate discount rate at the adoption date. Comparative information has not been restated as the Group has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2019.

The Group has applied the optional exemption contained within IFRS 16, which permits the cost of short-term (less than 12 months) leases to be expensed on a straight-line basis over the lease term. These lease arrangements are not material to the Group.

At 31 December 2018, the Group had non-cancellable operating lease commitments of £500.1 million. As a result of applying IFRS 16, the Group recognised a lease liability and ROU asset at 1 January 2019 of £418.3 million and £411.9 million respectively and restated its net assets to reflect a reduction of £6.9 million, net of tax. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.95%.

The opening lease commitments as at 1 January 2019 are reconciled to the opening lease liability as follows:

	£m
Lease commitments at 1 January 2019	500.1
Interest to be unwound over the lease term	(81.8)
<b>Opening lease liability at 1 January 2019</b>	<b>418.3</b>

The Group's accounting policies in respect of IFRS 16 are set out in note 12.

### IFRIC 23 Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB issued IFRIC 23 which became effective on 1 January 2019. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. IFRIC 23 does not have a material impact on the Group's financial statements.

### (c) Future accounting developments

The Group did not implement the requirements of any other Standards or Interpretations that were in issue but were not required to be adopted by the Group at the year end date. No other Standards or Interpretations have been issued that are expected to have a material impact on the Group's financial statements.

### (d) Basis of consolidation

The consolidated financial information includes the total comprehensive gains or losses, the financial position and the cash flows of the Company and its subsidiaries, associates and joint ventures. Details of the Company's related undertakings are presented in note 38. This includes share ownership trusts established for certain share-based awards. In the case of associates and joint ventures, those entities are presented as single line items in the Income statement and Statement of financial position (see note 10). Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year on year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number of pooled investment vehicles controlled by the Group.

In such cases, the investment vehicle is consolidated and the third party interest is recorded as a financial liability until the Group loses control. This consolidation has no net effect on the Group's Consolidated income statement. The cash flow statement separately presents acquisitions and disposals of interests in consolidated pooled vehicles. Cash movements within the pooled vehicles are shown net within cash flows from operating activities as the cash held within the underlying pooled vehicles is restricted and is not available to the Group for corporate purposes. This presentation provides more relevant information about the impact of the Group's investment in pooled vehicles on corporate cash resources than an analysis of the underlying cash flows of the vehicles.

# Notes to the accounts continued

## Presentation of the financial statements continued

### (d) Basis of consolidation continued

In 2019, the Group acquired a 49.9% equity interest in SPW (see note 10) and a portion of the Wealth Management business of LBG. The Group sold 19.9% of its shareholding in SWHL, the Group's UK Wealth Management business, for £204.7 million. Accordingly, the Group attributed 19.9% of the net assets of SWHL to non-controlling interest. This resulted in the Group recognising a gain of £153.6 million in the Group's Consolidated statement of changes in equity. The profit after tax of SWHL was £7.0 million for the period from 3 October 2019 to 31 December 2019 and no dividends were paid to SWHL's non-controlling interests during this period. The net assets of SWHL were £264.3 million at 31 December 2019.

### (e) Net gains and losses on foreign exchange

Many subsidiaries are denominated in currencies other than sterling. The results of these subsidiaries are translated at the average rate of exchange. At the year end, the assets and liabilities are translated at the closing rate of exchange. Gains or losses on translation are recorded in the Group's 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 monetary assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year end date. Any exchange differences arising are included within 'Net gain on financial instruments and other income' in the Group's income statement. Foreign currency non-monetary assets and liabilities are translated at the closing rate of exchange and gains or losses are recorded in the Group's statement of comprehensive income.

### (f) Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies and in determining whether certain assets and liabilities should be recorded or an impairment recognised. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified under the title estimates and judgements. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results.

The estimates and judgements that could have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes, including sensitivities where relevant:

Note 2	Net operating revenue
Note 5	Tax expense
Note 8	Trade and other receivables
Note 9	Financial assets
Note 13	Goodwill and intangible assets
Note 17	Financial liabilities
Note 18	Provisions and contingent liabilities
Note 25	Retirement benefit obligations
Note 29	Business combinations

In applying IFRS 10 Consolidated Financial Statements, the Group uses judgement to determine whether its interests in funds (and other entities), including those held by the Life Company, constitute controlling interests. The Group has interests in funds through its role as fund manager and through its proprietary investments in funds. The Group considers all relevant facts and circumstances in assessing whether it has power over specific funds or other entities. This includes consideration of the purpose and design of an investee, the extent of the Group's exposure to variability of returns as an investor and, where appropriate, as a fund manager, and the Group's ability to direct the relevant activities, including whether it has substantive or protective rights through voting rights and potential voting rights. These considerations are reassessed if there are indications that circumstances have changed since the original assessment.

# Schroders plc – Statement of financial position

at 31 December 2019

	Notes	2019 £m	2018 £m
<b>Assets</b>			
Trade and other receivables	32	1,504.7	1,435.7
Retirement benefit scheme surplus	25	136.3	155.6
Investments in subsidiaries	38	3,092.6	3,092.6
<b>Total assets</b>		<b>4,733.6</b>	<b>4,683.9</b>
<b>Liabilities</b>			
Trade and other payables	33	29.4	30.4
Deferred tax	34	20.0	20.9
<b>Total liabilities</b>		<b>49.4</b>	<b>51.3</b>
<b>Net assets</b>		<b>4,684.2</b>	<b>4,632.6</b>
Equity at 1 January		4,632.6	4,538.3
Profit for the year		401.4	423.7
Dividends		(312.3)	(311.7)
Other changes in equity		(37.5)	(17.7)
<b>Equity at 31 December</b>		<b>4,684.2</b>	<b>4,632.6</b>

The financial statements were approved by the Board of Directors on 4 March 2020 and signed on its behalf by:

**Richard Keers**

Director

# Schroders plc – Statement of changes in equity

for the year ended 31 December 2019

	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
<b>At 1 January 2019</b>		<b>282.5</b>	<b>124.2</b>	<b>(146.1)</b>	<b>4,372.0</b>	<b>4,632.6</b>
<b>Profit for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>401.4</b>	<b>401.4</b>
<b>Items that will not be reclassified to the income statement:</b>						
Net actuarial loss on defined benefit pension scheme	25	-	-	-	(23.8)	(23.8)
Tax on items taken directly to other comprehensive income		-	-	-	4.0	4.0
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(19.8)</b>	<b>(19.8)</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>381.6</b>	<b>381.6</b>
Own shares purchased	36	-	-	(71.9)	-	(71.9)
Share-based payments		-	-	-	53.2	53.2
Tax in respect of share schemes		-	-	-	1.0	1.0
Dividends	7	-	-	-	(312.3)	(312.3)
<b>Transactions with shareholders</b>		<b>-</b>	<b>-</b>	<b>(71.9)</b>	<b>(258.1)</b>	<b>(330.0)</b>
<b>Transfers</b>		<b>-</b>	<b>-</b>	<b>66.1</b>	<b>(66.1)</b>	<b>-</b>
<b>At 31 December 2019</b>		<b>282.5</b>	<b>124.2</b>	<b>(151.9)</b>	<b>4,429.4</b>	<b>4,684.2</b>

	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
<b>At 1 January 2018</b>		<b>282.5</b>	<b>124.2</b>	<b>(150.0)</b>	<b>4,281.6</b>	<b>4,538.3</b>
Restatement on adoption of IFRS 9		-	-	-	(1.1)	(1.1)
<b>At 1 January 2018 (restated)</b>		<b>282.5</b>	<b>124.2</b>	<b>(150.0)</b>	<b>4,280.5</b>	<b>4,537.2</b>
<b>Profit for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>423.7</b>	<b>423.7</b>
<b>Items that will not be reclassified to the income statement:</b>						
Net actuarial loss on defined benefit pension scheme	25	-	-	-	(11.5)	(11.5)
Tax on items taken directly to other comprehensive income		-	-	-	2.0	2.0
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(9.5)</b>	<b>(9.5)</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>414.2</b>	<b>414.2</b>
Own shares purchased	36	-	-	(66.7)	-	(66.7)
Share-based payments		-	-	-	60.3	60.3
Tax in respect of share schemes		-	-	-	(0.7)	(0.7)
Dividends	7	-	-	-	(311.7)	(311.7)
<b>Transactions with shareholders</b>		<b>-</b>	<b>-</b>	<b>(66.7)</b>	<b>(252.1)</b>	<b>(318.8)</b>
<b>Transfers</b>		<b>-</b>	<b>-</b>	<b>70.6</b>	<b>(70.6)</b>	<b>-</b>
<b>At 31 December 2018</b>		<b>282.5</b>	<b>124.2</b>	<b>(146.1)</b>	<b>4,372.0</b>	<b>4,632.6</b>

The distributable profits of Schroders plc are £2.9 billion (2018: £2.8 billion) and comprise retained profits of £3.0 billion (2018: £2.9 billion), included within the 'Profit and loss reserve', less amounts held within the own shares reserve.

The Group's ability to pay dividends is however restricted by the need to hold regulatory capital and to maintain sufficient other operating capital to support its ongoing business activities. In addition, the Group invests in its own funds as seed capital for the purposes of supporting new investment strategies. An analysis of the Group's capital position is provided in note 20.

# Schroders plc – Cash flow statement

for the year ended 31 December 2019

	2019 £m	2018 £m
<b>Profit before tax</b>	397.1	418.2
<b>Adjustments for:</b>		
Increase in trade and other receivables	(68.6)	(76.8)
Decrease in trade and other payables	1.0	(10.0)
Net credit taken in respect of the defined benefit pension scheme	(4.5)	(4.2)
Share-based payments	53.2	60.3
Amounts received in respect of Group tax relief	8.0	5.4
<b>Net cash from operating activities</b>	<b>386.2</b>	<b>392.9</b>
<b>Cash flows from financing activities:</b>		
Repayment of loan received from a Group company	(2.0)	(14.5)
Acquisition of own shares	(71.9)	(66.7)
Dividends paid	(312.3)	(311.7)
<b>Net cash used in financing activities</b>	<b>(386.2)</b>	<b>(392.9)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Opening cash and cash equivalents	-	-
Net decrease in cash and cash equivalents	-	-
<b>Closing cash and cash equivalents</b>	<b>-</b>	<b>-</b>

## 30. Significant accounting policies

The separate financial statements of Schroders plc (Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 (Act) applicable to companies reporting under IFRS, and accounting policies that have been applied consistently. As permitted by the Act, the separate financial statements have been prepared in accordance with IFRS (as adopted by the European Union), which comprises standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as at 31 December 2019. The Company has taken advantage of the exemption in section 408 of the Act not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures, where applicable. In addition, note 38 sets out the accounting policy in respect of investments in subsidiary undertakings.



# Schroders plc – Notes to the accounts

## 31. Expenses and other disclosures

The auditor's remuneration for audit services to the Company was £0.6 million (2018: £0.6 million). There were no fees relating to further assurance services in the year (2018: nil).

### Key management personnel compensation

The remuneration policy is described in more detail at [schroders.com/directors-remuneration-policy](http://schroders.com/directors-remuneration-policy). The Company has no employees. The key management personnel of the Company are defined as the Board of Directors. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2019 £m	2018 £m
Short-term employee benefits	Salary and upfront bonus	6.4	6.8
Share-based payments	Deferred share awards	4.1	1.7
Other long-term benefits	Deferred cash awards	3.8	2.3
		<b>14.3</b>	<b>10.8</b>

## 32. Trade and other receivables

	2019 £m	2018 £m
Amounts due from subsidiaries	1,496.3	1,427.9
Other receivables	8.4	7.8
	<b>1,504.7</b>	<b>1,435.7</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 or repayable on demand.

Expected credit losses on trade and other receivables at 31 December 2019 were £1.2 million (2018: £1.1 million). Note 20 sets out the details of the expected credit loss calculation.

## 33. Trade and other payables

	2019			2018		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables held at amortised cost:						
Social security	1.5	1.5	3.0	3.0	2.2	5.2
Accruals	3.9	7.8	11.7	4.5	13.2	17.7
Amounts owed to subsidiaries	–	14.7	14.7	–	7.5	7.5
	<b>5.4</b>	<b>24.0</b>	<b>29.4</b>	<b>7.5</b>	<b>22.9</b>	<b>30.4</b>

The Company's trade and other payables mature in the following time periods:

	2019 £m	2018 £m
Less than one year	24.0	22.9
1 – 2 years	2.3	4.6
2 – 3 years	3.1	2.0
3 – 4 years	–	0.9
	<b>5.4</b>	<b>7.5</b>
	<b>29.4</b>	<b>30.4</b>

Amounts owed to subsidiaries include an interest-bearing loan of £5.0 million (2018: £7.0 million) that is repayable on demand.

### 34. Deferred tax

	2019			2018		
	Deferred employee awards £m	Pension surplus £m	Total £m	Deferred employee awards £m	Pension surplus £m	Total £m
At 1 January	(5.5)	26.4	20.9	(7.8)	27.7	19.9
Income statement charge	2.3	0.8	3.1	1.3	0.7	2.0
Income statement charge/(credit) due to changes in tax rates	0.1	(0.1)	–	–	–	–
Credit to statement of other comprehensive income	–	(4.5)	(4.5)	–	(2.0)	(2.0)
Charge taken to equity	–	0.5	0.5	1.0	–	1.0
<b>At 31 December</b>	<b>(3.1)</b>	<b>23.1</b>	<b>20.0</b>	<b>(5.5)</b>	<b>26.4</b>	<b>20.9</b>

### 35. Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have adequate capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Key risks and mitigations' section within the Strategic report and the 'Risk and internal controls' section within the Audit and Risk Committee report as well as in note 20. The Company's specific risk exposures are explained below.

#### Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

#### Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover its needs in the normal course of business. The Company can recall intercompany loans to subsidiaries or utilise the Group loan facility to maintain sufficient liquidity.

#### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

At 31 December 2019, if interest rates had been 75 bps higher (2018: 100 bps higher) or 50 bps lower (2018: 50 bps lower) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £8.7 million (2018: increased by £11.0 million) or decreased by £5.8 million (2018: decreased by £5.5 million) respectively. These changes are mainly as a result of net interest income on the Company's interest-bearing intercompany receivables and payables and cash. Other components of equity are not directly affected by interest rate movements.

The model used to calculate the effect on post-tax profits does not take into account the indirect effect of interest rates on the fair value of other assets and liabilities.

#### Foreign exchange and pricing risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is not directly exposed to foreign exchange or pricing risk. The Company's investments in its directly-held subsidiaries are in sterling and are held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group, which could result in the impairment of these subsidiaries. There are currently sufficient resources in subsidiaries to absorb any normal market events.

### 36. Own shares

Movements in own shares during the year were as follows:

	2019 £m	2018 £m
At 1 January	(146.1)	(150.0)
Own shares purchased	(71.9)	(66.7)
Awards vested	66.1	70.6
<b>At 31 December</b>	<b>(151.9)</b>	<b>(146.1)</b>

During the year 2.5 million own shares (2018: 2.1 million own shares) were purchased and held for hedging share-based awards. 2.5 million shares (2018: 2.6 million shares) awarded to employees vested in the period and were transferred out of own shares.

# Schroders plc – Notes to the accounts continued

## 36. Own shares continued

The total number of shares in the Company held within the Company's employee benefit trusts comprise:

	2019			2018		
	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	2.0	5.5	7.5	2.6	5.5	8.1
Non-voting ordinary shares	–	0.1	0.1	–	0.1	0.1
	<b>2.0</b>	<b>5.6</b>	<b>7.6</b>	<b>2.6</b>	<b>5.6</b>	<b>8.2</b>

	2019			2018		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	44.2	151.2	195.4	57.5	144.9	202.4
Fair value	66.4	184.6	251.0	65.0	133.9	198.9
Non-voting ordinary shares:						
Cost	0.2	0.7	0.9	0.2	1.2	1.4
Fair value	0.7	1.0	1.7	0.7	1.4	2.1
<b>Total:</b>						
<b>Cost</b>	<b>44.4</b>	<b>151.9</b>	<b>196.3</b>	<b>57.7</b>	<b>146.1</b>	<b>203.8</b>
<b>Fair value</b>	<b>67.1</b>	<b>185.6</b>	<b>252.7</b>	<b>65.7</b>	<b>135.3</b>	<b>201.0</b>

## 37. Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under IFRS. As a result, the related parties of the Company comprise principally subsidiaries, joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties.

The Company has determined that key management personnel comprises only the Board of Directors.

### Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation (which is set out in note 31), are disclosed below:

	2019					
	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	418.0	18.5	8.5	0.1	1,496.3	(14.7)
Key management personnel	0.3	–	–	(0.1)	–	(46.3)

	2018					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	447.0	22.4	5.6	0.2	1,427.9	(7.5)
Key management personnel	0.4	–	–	0.1	3.8	(42.5)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash.

### 38. Subsidiaries and other related undertakings

The Group operates globally, which results in the Company having a corporate structure consisting of a number of related undertakings, comprising subsidiaries, joint ventures, associates and other qualifying undertakings. A full list of these undertakings, the country of incorporation, registered office, classes of shares held and the effective percentage of equity owned at 31 December 2019 is disclosed below.

Additionally, related undertakings include entities where the Company has a significant holding of a share class or unit class of a pooled vehicle. These holdings can arise through the Group's investment management activities on behalf of clients or as part of the stated aim of generating a return on investment capital. Additionally, the seeding of structured entities in order to develop new investment strategies can give rise to these holdings. A listing of related undertakings arising from the Company's interest in structured entities along with registered offices is included on pages 183 to 185.

#### (a) Related undertakings arising from the Company's corporate structure

##### Principal subsidiaries

The principal subsidiaries listed below are those that, in the opinion of the Directors, principally affect the consolidated profits or net assets of the Company, or are regulated. The principal subsidiary entities are wholly-owned subsidiary undertakings of the Company, unless otherwise stated. All undertakings operate in the countries where they are registered or incorporated and are stated at cost less, where appropriate, provision for impairment.

Name	Share class	%	Address
<b>UK</b>			
Aspect8 Limited <sup>a</sup>	OS	86.8%	Holmwood House, Langhurstwood Road, Horsham, RH12 4QP, England
Best Practice IFA Group Limited <sup>a</sup>	OS	86.8%	
Evolution Wealth Network Limited <sup>a</sup>	OS	86.8%	
Fusion Funds Limited <sup>a</sup>	OS	86.8%	
Fusion Wealth Limited <sup>a</sup>	OS	86.8%	
Leadenhall Securities Corporation Limited	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
Schroder & Co. Limited	OS	80.1%	
Schroder Administration Limited <sup>b</sup>	OS	100%	
Schroder Corporate Services Limited	OS	100%	
Schroder Financial Services Limited	OS	100%	
Schroder Investment Company Limited	OS	100%	
Schroder Investment Management Limited	OS	100%	
Schroder Investment Management North America Limited	OS	100%	
Schroder Pension Management Limited	OS	100%	
Schroder Real Estate Investment Management Limited	OS	100%	
Schroder Unit Trusts Limited	OS	100%	
Schroder Wealth Management (US) Limited	OS	80.1%	
<b>Argentina</b>			
Schroder Investment Management S.A.	OS	95%	Ing.Enrique Butty 220, Piso 12, Buenos Aires, C1001AFB, Argentina
<b>Australia</b>			
Schroder Investment Management Australia Limited	OS, CPS	100%	Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia
<b>Bermuda</b>			
Schroders (Bermuda) Limited	OS	100%	Wellesley House, 2 <sup>nd</sup> Floor, 90 Pitts Bay Road, Pembroke HM 08, Bermuda
<b>Brazil</b>			
Schroder Investment Management Brasil Ltda	OS	100%	100 Joaquim Floriano, 14 <sup>th</sup> Floor, Suite 142, Itaim Bibi, São Paulo, São Paulo, 04534000, Brazil
<b>China</b>			
Schroder Adveq Equity Investment Fund Management (Shanghai) Co., Ltd.	OS	100%	Unit 33T52B, 33F, Shanghai World Financial Centre, 100 Century Avenue, FTZ, Shanghai, China
Schroder Investment Management (Shanghai) Co., Ltd.	OS	100%	
<b>France</b>			
Schroder Real Estate (France)	OS	100%	1 rue Euler, 75008, Paris, France
Schroder AIDA SAS	OS	70%	
<b>Germany</b>			
Schroder Real Estate Investment Management GmbH	OS	100%	Taunustor 1, 60310, Frankfurt, Germany
Schroder Real Estate Kapitalverwaltungsgesellschaft mbH	OS	100%	

# Schroders plc – Notes to the accounts continued

## 38. Subsidiaries and other related undertakings continued

### (a) Related undertakings arising from the Company's corporate structure continued

#### Principal subsidiaries continued

Name	Share class	%	Address
<b>Guernsey</b>			
Burnaby Insurance (Guernsey) Limited	OS	100%	Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4JH, Channel Islands
Schroders (C.I.) Limited	OS	100%	PO Box 334, Regency Court, Gategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Investment Company (Guernsey) Limited	OS	100%	
Schroder Investment Management (Guernsey) Limited	OS	100%	
Schroder Venture Managers (Guernsey) Limited	OS, NCRPS	100%	
<b>Hong Kong</b>			
Schroder Adveq Management (Hong Kong) Limited	OS	100%	Sutie 616, 100 Queen's Road Central, Central, Hong Kong, Hong Kong
Schroder & Co. (Hong Kong) Limited	OS	100%	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, Hong Kong
Schroder Investment Management (Hong Kong) Limited	OS	100%	Level 33, Two Pacific Place, 88 Queensway, Hong Kong, Hong Kong
<b>Indonesia</b>			
PT Schroder Investment Management Indonesia	OS	99%	30 <sup>th</sup> Floor, Indonesia Stock Exchange Building, Tower 1, Jl Jendral Sudirman Kav 52-53, Jakarta, 12190, Indonesia
<b>Ireland</b>			
Schroder Investment Management (Ireland) Limited	OS	100%	George's Court, 54-62 Townsend Street, Dublin 2, Ireland
<b>Japan</b>			
Schroder Investment Management (Japan) Limited	OS	100%	8-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-0005, Japan
<b>Jersey</b>			
Schroder Real Estate Managers (Jersey) Limited	OS	100%	40 Esplanade, St Helier, Jersey, JE4 9WB, Channel Islands
<b>Luxembourg</b>			
BlueOrchard Asset Management Luxembourg S.A. <sup>c</sup>	OS	70%	1 rue Goethe, L-1637, Luxembourg
Schroder Investment Management (Europe) S.A.	OS	100%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg
Schroder Real Estate Investment Management (Luxembourg) S.à.r.l.	OS	100%	
<b>Mexico</b>			
Consultora Schroders, S.A. de C.V. <sup>d,e</sup>	OS	99%	Montes Urales 760 Desp. 101, Col. Lomas de Chapultepec, Mexico, DF, 11000, Mexico
<b>Singapore</b>			
Schroder & Co (Asia) Limited	OS	80.1%	138 Market Street, #23-02, CapitaGreen, Singapore, 048946, Singapore
Schroder Investment Management (Singapore) Ltd.	OS	100%	
<b>South Korea</b>			
Schroders Korea Limited	OS	100%	26 <sup>th</sup> fl., 136, Sejong-daero, Jung-gu, Seoul 100-768, Korea
<b>Switzerland</b>			
BlueOrchard Finance AG	OS	70%	Seefeldstrasse 233, 8008, Zurich, Switzerland
Schroder Adveq Management AG	OS	100%	Affolternstrasse 56, 8050, Zurich, Switzerland
Schroder & Co Bank AG	OS	100%	Central 2, 8021, Zurich, Switzerland
Schroder Investment Management (Switzerland) AG	OS	100%	
<b>Taiwan</b>			
Schroder Investment Management (Taiwan) Limited	OS	100%	9/F, 108 Sec.5, Hsin-Yi Road, Hsin-Yi District, Taipei 11047, Taiwan
<b>United States</b>			
Schroder Adveq Management US Inc.	OS	100%	Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, USA
Schroder Canada Inc.	OS	100%	7 Bryant Park, New York, New York, 10018, USA
Schroder Fund Advisors LLC	COS	100%	
Schroder Investment Management North America Inc.	COS	100%	
Schroder US Holdings Inc.	COS	100%	National Registered Agents, Inc., 160 Greentree Drive, Suite 101, Dover, Delaware, 19904, USA



### 38. Subsidiaries and other related undertakings continued

#### (a) Related undertakings arising from the Company's corporate structure continued

##### Fully-owned subsidiaries

Name	Share class	%	Address
<b>UK</b>			
Adveq Founder Partner (GP) Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
Adveq Founder Partner Limited	OS	100%	
Adveq GP LLP	PI	100%	
Algonquin Management Partners (UK) Ltd	OS	100%	5 Elstree Gate, Elstree Way, Borehamwood, Hertfordshire, WD6 1JD, England
Croydon Gateway Nominee 1 Limited	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
Croydon Gateway Nominee 2 Limited	OS	100%	
Gatwick Hotel Feeder GP LLP	PI	100%	
J. Henry Schroder Wagg & Co. Limited <sup>f</sup>	OS	100%	
Schroder Financial Holdings Limited	OS	100%	
Schroder Infra Debt GP LLP	PI	100%	
Schroder International Holdings Limited	OS	100%	
Schroder Nominees Limited <sup>f</sup>	OS	100%	
Schroder Pension Trustee Limited	OS	100%	
Schroder Private Assets Holdings Limited	OS	100%	
Schroder Wealth International Holdings Limited	OS	100%	
The Lexicon Management Company Limited	OS	100%	
UK PEM Partners Limited	OS	100%	
Cazenove Capital Management Limited (In Liquidation)	OS	100%	CVR Global LLP, Town Wall House, Balkerne Hill, Colchester, Essex, CO3 3AD, England
Schroder Adveq Management (UK) Limited (In Liquidation)	OS	100%	
<b>Australia</b>			
Schroder Australia Holdings Pty Limited	OS	100%	Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia
<b>Austria</b>			
Schroder Real Estate Asset Management Österreich GmbH	OS	100%	Zwerchäckerweg 2-10, 1220 Vienna, Austria
<b>Belgium</b>			
Algonquin Management Partners S.A.	OS	100%	Avenue Louise, 523 – 1050 Bruxelles, Belgium
<b>Bermuda</b>			
Schroder General Partner (Bermuda) Limited	OS	100%	Wellesley House, 2 <sup>nd</sup> Floor, 90 Pitts Bay Road, Pembroke HM 08, Bermuda
Schroder Management Company (Bermuda) Limited	OS	100%	
Schroder Venture Managers Limited	COS	100%	
SITCO Nominees Limited	OS	100%	
<b>Canada</b>			
Schroder Canada Investments Inc.	COS	100%	Cidel Financial Group, 60 Bloor Street West, 9 <sup>th</sup> Floor, Toronto, Ontario, M4W 3B8, Canada
<b>Cayman Islands</b>			
AEROW SMA Management I L.P.	PI	100%	Maples & Calder, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands
AEROW SMA Management II L.P.	PI	100%	
PEM Partners Ltd	OS	100%	
Schroder Adveq cPI Global Management III L.P.	PI	100%	
<b>Chile</b>			
Schroders Chile SpA	OS	100%	Avenida Cerro El Plomo 5420 Oficina 1104, Les Condes, Santiago, Chile
<b>China</b>			
Schroder Adveq Investment Management (Beijing) Co., Ltd.	OS	100%	Room 1929-1932, Winland International Finance Centre, 7 Finance Street, Xicheng District, Beijing, China
<b>Curaçao</b>			
Schroder Adveq Investors B.V.	OS	100%	Johan van, Walbeekplein 11, Willemstad, Curaçao
cPI Schroder Adveq Investments Management B.V	OS	100%	
Schroder Adveq Management N.V	OS	100%	
<b>France</b>			
Holdco LC Paris Blomet SAS	OS	100%	1 rue Euler, 75008, Paris, France
<b>Germany</b>			
Blitz 06-953 GmbH	OS	100%	Taunustor 1, 60310, Frankfurt, Germany
Real Neunzehnte Verwaltungsgesellschaft mbH	OS	100%	
Schroder Adveq Management Deutschland GmbH	OS	100%	
Schroder Eurologistik Fonds Verwaltungs GmbH	OS	100%	

# Schroders plc – Notes to the accounts continued

## 38. Subsidiaries and other related undertakings continued

### (a) Related undertakings arising from the Company's corporate structure continued

#### Fully-owned subsidiaries continued

Name	Share class	%	Address
<b>Germany (continued)</b>			
Schroder Holdings (Deutschland) GmbH	CS	100%	Taunustor 1, 60310, Frankfurt, Germany
Schroder Italien Fonds Verwaltungs GmbH	OS	100%	
SPrIM Holdings GmbH	OS	100%	
SIMA 5 Verwaltungsgesellschaft mbH	OS	100%	
Schroder Real Estate Asset Management GmbH	OS	100%	Maximilianstrasse 31, 80539 München, Germany
Schroder Real Estate Asset Management Austria GmbH	OS	100%	
<b>Guernsey</b>			
Schroder Investments (Guernsey) Limited	OS	100%	PO Box 334, Regency Court, Glatigny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Nominees (Guernsey) Limited	OS	100%	
SQ Revita I Limited	OS	100%	
Secquaero Re (Guernsey) ICC Ltd	OS	100%	PO Box 33, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 4AT, Channel Islands
<b>Hong Kong</b>			
Schroders Asia Nominees Limited	OS	100%	Level 33, Two Pacific Place, 88 Queensway, Hong Kong, Hong Kong
S & C Nominees Limited	OS	100%	
<b>Jersey</b>			
AAF Management II L.P.	PI	100%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
AAF Management III L.P.	PI	100%	
BKMS Management L.P.	PI	100%	
BKMS Management II L.P.	PI	100%	
Cresta Management L.P.	PI	100%	
Cresta Management II L.P.	PI	100%	
EEM Management II L.P.	PI	100%	
EEM Opportunities Management L.P.	PI	100%	
Gemini Management L.P.	PI	100%	
GPEP Management IV L.P.	PI	100%	
ICD Management L.P.	PI	100%	
IST3 Manesse PE Management L.P.	PI	100%	
IST3 Manesse PE2 Management L.P.	PI	100%	
Milele Partners L.P.	PI	100%	
SA-EL Asia Partners I L.P.	PI	100%	
SA-EL Asia Partners II L.P.	PI	100%	
SA RP CO Management 1 L.P.	PI	100%	
SA (Project Golden Bear) Management L.P.	PI	100%	
Salève 2017 Management L.P.	PI	100%	
Salève 2020 Management L.P.	PI	100%	
Schroder Adveq Asia Partners V L.P.	PI	100%	
Schroder Adveq EEM Management I L.P.	PI	100%	
Schroder Adveq Europe Direct Partners II L.P.	PI	100%	
Schroder Adveq Europe Partners VII L.P.	PI	100%	
Schroder Adveq Europe Partners VIII L.P.	PI	100%	
Schroder Adveq Global Partners II L.P.	PI	100%	
Schroder Adveq Healthcare Partners L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management II L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management III L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management IV L.P.	PI	100%	
Schroder Adveq Mature Secondaries (Orthros) Management L.P.	PI	100%	
Schroder Adveq Secondaries Management III L.P.	PI	100%	
Schroder Adveq Technology Partners X L.P.	PI	100%	
Schroder Adveq Technology Partners IX L.P.	PI	100%	
Schroder Adveq Shanghai Private Equity Investment Management L.P.	PI	100%	
Schroder Adveq US Partners V L.P.	PI	100%	
SC-SA Co-Invest Opportunities 2018 Management L.P.	PI	100%	

### 38. Subsidiaries and other related undertakings continued

#### (a) Related undertakings arising from the Company's corporate structure continued

##### Fully-owned subsidiaries continued

Name	Share class	%	Address
<b>Jersey (continued)</b>			
TMC Management III L.P.	PI	100%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
TMC Management IV L.P.	PI	100%	
TMCO Management I L.P.	PI	100%	
Wilmersdorf Secondary Management II L.P.	PI	100%	
Cazenove Capital Holdings Limited	OS	100%	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
Croydon Gateway GP Limited	OS	100%	40 Esplanade, St Helier, Jersey, JE2 9WB, Channel Islands
Croydon Gateway Investments Limited	OS	100%	
Income Plus Real Estate Debt GP Limited	OS	100%	
Schroder Adveq Management Jersey Ltd	OS	100%	
UK Retirement Living Fund (ReLF) GP Limited	OS	100%	
<b>Luxembourg</b>			
Schroder Euro Enhanced Infra Debt Fund II GP S.à.r.l.	OS	100%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg
Schroder European Operating Hotel GP S.à.r.l.	OS	100%	
SNI Management S.à.r.l.	OS	100%	
SRE Invest SCSp	PI	100%	
UK Retirement Living GP S.à.r.l.	OS	100%	6C rue Gabriel Lippmann, Munsbach, L-5365, Luxembourg
Schroder Adveq Europe Management VIII S.à.r.l.	OS	100%	
Schroder Adveq Healthcare Management S.à.r.l.	OS	100%	
Schroder Adveq Management Luxembourg S.à.r.l.	OS	100%	
Schroder Adveq Technology Management X S.à.r.l.	OS	100%	
Schroder Adveq US Management V S.à.r.l.	OS	100%	
Schroder Adveq Asia Management V S.à.r.l.	OS	100%	
<b>Netherlands</b>			
Schroder International Finance B.V.	OS	100%	1 London Wall Place, London, EC2Y 5AU, England
<b>Singapore</b>			
Schroder Singapore Holdings Private Limited	OS	100%	138 Market Street, #23-02, CapitaGreen, Singapore, 048946, Singapore
SIMBL Nominees Private Limited	OS	100%	
<b>Switzerland</b>			
Schroder Real Estate Management Switzerland GmbH	OS	100%	PKF Consulting AG, Lavaterstrasse 40, 8002, Zurich, Switzerland
Schroder Adveq Holding AG	OS	100%	Affolternstrasse 56, 8050, Zurich, Switzerland
Schroder Trust AG (In Liquidation)	OS	100%	P.O. Box 3655, 8 rue d'Italie, 1204, Geneva, Switzerland
<b>United States</b>			
Schroders Incorporated	COS	100%	9 East Loockerman Street, Dover, Delaware, 19901, USA
Schroder Venture Managers Inc.	COS	100%	7 Bryant Park, New York, New York, 10018, USA
Schroder FOCUS II GP, LLC	PI	100%	1209 Orange Street, Wilmington, Delaware, 19801, USA
Schroder FOCUS II-L GP, LLC	PI	100%	
Schroder Securitized Credit Flexible Opportunities GP, LLC	PI	100%	

# Schroders plc – Notes to the accounts continued

## 38. Subsidiaries and other related undertakings continued

### (a) Related undertakings arising from the Company's corporate structure continued

Subsidiaries where the ownership is less than 100%

Name	Share class	%	Address
<b>UK</b>			
Alderbrook Financial Planning Limited <sup>a f</sup>	OS	86.8%	Holmwood House, Langhurstwood Road, Horsham, RH12 4QP, England
Benchmark Capital Limited <sup>d</sup>	OS	86.8%	
Brian Potter Consultants Limited <sup>a f</sup>	OS	86.8%	
Bright Square Pensions Limited <sup>a</sup>	OS	86.8%	
Chilcomb Wealth Ltd <sup>a</sup>	OS	86.8%	
Creative Technologies Limited <sup>a</sup>	OS	86.8%	
CT Connect <sup>a f</sup>	OS	86.8%	
GYP Limited <sup>a</sup>	OS	86.8%	
Invicta Independent Financial Advisers Limited <sup>a f</sup>	OS	86.8%	
PP Nominees Limited <sup>a</sup>	OS	86.8%	
PP Trustees Limited <sup>a</sup>	OS	86.8%	
RIA Pension Trustees Limited <sup>a</sup>	OS	86.8%	
Richard Martin Financial Solutions Limited <sup>a f</sup>	OS	86.8%	
Squirrel Financial Planning Limited <sup>a</sup>	OS	86.8%	
Mitchell & Company Holdings (Reigate) Limited <sup>a</sup>	OS	86.8%	
Mitchell & Company (IFA) Limited <sup>a</sup>	OS	86.8%	
Redbourne Wealth Management Ltd <sup>a</sup>	OS	58%	Belmont House, Shrewsbury Business Park, Shrewsbury, SY2 SLG, England
Cazenove New Europe (CFM1) Limited <sup>f</sup>	OS	80.1%	1 London Wall Place, London, EC2Y 5AU, England
Cazenove New Europe (PPI) Limited <sup>f</sup>	OS	80.1%	
Cazenove New Europe Staff Interest Limited <sup>f</sup>	OS	80.1%	
CCM Nominees Limited <sup>f</sup>	OS	80.1%	
Residential Land Development (GP) LLP	PI	67%	
Schroder & Co Nominees Limited <sup>f</sup>	OS	80.1%	
Schroder Wealth Holdings Limited	OS	80.1%	
<b>Argentina</b>			
Schroder S.A. Sociedad Gerente de Fondos Comunes de Inversion	OS	95%	Ing.Enrique Butty 220, Piso 12, Buenos Aires, C1001AFB, Argentina
<b>Cayman Islands</b>			
Schroder Adveq Asia Management I L.P.	PI	75%	Maples & Calder, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands
Schroder Adveq Asia Management II L.P.	PI	65%	
Schroder Adveq cPI Global Management L.P.	PI	63%	
Schroder Adveq cPI Global Management II L.P.	PI	88%	
Schroder Adveq Europe Management II L.P.	PI	20%	
Schroder Adveq Europe Management IV A L.P.	PI	59%	
Schroder Adveq Europe Management IV B L.P.	PI	70%	
Schroder Adveq Technology Management IV L.P.	PI	30%	
Schroder Adveq Technology Management V L.P.	PI	89%	
Schroder Adveq Technology Management VI L.P.	PI	65%	
Schroder Adveq US Management I L.P.	PI	76%	
Schroder Adveq US Management II L.P.	PI	87%	
<b>France</b>			
Schroder Mid Infra UP	OS	70%	1 rue Euler, 75008, Paris, France
Terre et Mer Holding SAS	OS	80%	
Schroders IDF IV UP	OS	70%	8-10 rue Lamennais, 75008, Paris, France
<b>Germany</b>			
CM Komplementr 06-379 GmbH & Co KG	OS	95%	Taunustor 1, 60310, Frankfurt, Germany

### 38. Subsidiaries and other related undertakings continued

#### (a) Related undertakings arising from the Company's corporate structure continued

Subsidiaries where the ownership is less than 100% continued

Name	Share class	%	Address
<b>Jersey</b>			
AAF Management I L.P.	PI	48%	26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
GPEP Management II L.P.	PI	70%	
GPEP Management III L.P.	PI	70%	
Schroder Adveq Asia Management III L.P.	PI	53%	
Schroder Adveq Asia Management IV L.P.	PI	70%	
Schroder Adveq Europe Co-Investments Management L.P.	PI	73%	
Schroder Adveq Europe Management V L.P.	PI	73%	
Schroder Adveq Europe Management VI L.P.	PI	74%	
Schroder Adveq Global Management L.P.	PI	71%	
Schroder Adveq Real Assets Harvested Resources Management L.P.	PI	73%	
Schroder Adveq Secondaries Management II L.P.	PI	53%	
Schroder Adveq Technology Management VII L.P.	PI	46%	
Schroder Adveq Technology Management VIII L.P.	PI	78%	
Schroder Adveq US Management III L.P.	PI	51%	
Schroder Adveq US Management IV L.P.	PI	73%	
TMC Management I L.P.	PI	54%	
TMC Management II L.P.	PI	49%	
Wilmersdorf Secondary Management L.P.	PI	71%	
<b>Luxembourg</b>			
BlueOrchard Invest S.à r.l. <sup>c</sup>	OS	70%	1 rue Goethe, L-1637, Luxembourg
Schroder Property Services B.V.	OS	70%	5 rue Höhenhof, L-1736, Senningerberg, Luxembourg
<b>Netherlands</b>			
NEOS Finance Group B.V.	OS	49%	The Hofpoort Building, Hofplein 20, 21 <sup>st</sup> Floor, 3032 AC Rotterdam, Netherlands
<b>Peru</b>			
BlueOrchard America Latina S.A.C. <sup>c</sup>	OS	70%	184 Calle German Schreiber, Office 201, San Isidro, Lima, Peru
<b>Singapore</b>			
BlueOrchard Investments Singapore PTE Ltd <sup>c</sup>	OS	70%	11 Amoy Street, #02-00, Singapore, 069931, Singapore
<b>United States</b>			
Safe Harbor Re Holdings LLC <sup>a</sup>	Class S, CPS	9%	National Registered Agents, Inc., 160 Greentree Dr.Suite 101 Dover, Delaware, 19904, USA

#### Associates and joint ventures

Name	Share class	%	Address
<b>UK</b>			
Algonquin (Liverpool) Limited (In Liquidation)	OS	20%	5 Elstree Gate, Elstree Way, Borehamwood, Hertfordshire, WD6 1JD, England
Algonquin (York) Limited (In Liquidation)	OS	36%	6 Snow Hill, London, EC1A 2AY, England
Clarke-Walker Financial Management Limited <sup>a</sup>	OS	17%	125-135 Preston Road, Fifth Floor Telecom House, Brighton, BN1 6AF, England
Finura Partners Limited <sup>a</sup>	OS	42.5%	15 Bowling Green Lane, London, EC1R 0BD, England
Kellands (Bristol) Limited <sup>a</sup>	OS	27%	Quays Office Park, Conference Avenue, Portishead, Bristol, BS20 7LZ, England
Rayner Spencer Mills Research Limited <sup>a</sup>	OS	43%	20 Ryefield Business Park, Belton Road, Silsden, Keighley, West Yorkshire, BD20 0EE, England
Regrowth Holdings Limited <sup>a</sup>	OS	21%	New Barn Manor Farm Courtyard, Southam Lane Southam, Cheltenham, Gloucestershire, GL52 3PB, England
Nippon Life Schroders Asset Management Europe Limited <sup>d</sup>	OS	33%	1 London Wall Place, London, EC2Y 5AU, England
Social Supported Housing CIP LLP	PI	50%	
Social Supported Housing GP LLP	PI	50%	
Robertson Baxter Limited <sup>a</sup>	OS	21%	Beck House, Abbey Road, Shepley, Huddersfield, HD8 8EP, England
RWC Partners Limited <sup>d</sup>	OS	41%	10 Bressenden Place, Verde 4 <sup>th</sup> Floor, London, SW1E 5DH, England
Scottish Widows Schroder Wealth Holdings Limited	OS	49.9%	25 Gresham Street, London, EC2V 7HN, England
Waterhouse Financial Planning Limited <sup>a</sup>	OS	17%	1 Carlisle Terrace, Derry, BT48 6JX, Northern Ireland

# Schroders plc – Notes to the accounts continued

## 38. Subsidiaries and other related undertakings continued

### (a) Related undertakings arising from the Company's corporate structure continued

#### Associates and joint ventures continued

Name	Share class	%	Address
<b>Belgium</b>			
Algonquin Astrid	PS	33%	Avenue Louise, 523 – 1050 Bruxelles, Belgium
Algonquin BB (In Liquidation)	OS	33%	
<b>China</b>			
Bank of Communications Schroder Fund Management Company Limited	OS	30%	2 <sup>nd</sup> Floor Bank of Communications Tower, 188 Middle Yincheng Road, Pudong New Area, Shanghai, 200120, China
<b>France</b>			
Algonquin France Hotels Services	OS	36%	1 rue Euler, 75008, Paris, France
JV Hotel La Villette SAS	OS	50%	
<b>Guernsey</b>			
Schroder Ventures Investments Limited	OS, R, D	50%	PO Box 255, Trafalgar Court Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands
<b>India</b>			
Axis Asset Management Company Limited <sup>h</sup>	OS	25%	1 <sup>st</sup> Floor, Axis House C-2 Wadia International Centre, Pandurang Budhkar Marg, Worli-Mumbai, 400025, India
<b>Jersey</b>			
Bracknell General Partner Limited <sup>a</sup>	OS	50%	PO Box 490, 40 Esplanade, St Helier, Jersey, JE4 9WB, Channel Islands
UK Retirement Living Fund (CIP) GP Limited	OS	50%	
<b>Luxembourg</b>			
Geres Investment II S.à.r.l	OS	40%	2 Avenue, Charles De Gaulle, L-1653, Luxembourg
<b>Singapore</b>			
Nippon Life Global Investors Singapore Limited	OS	33%	138 Market Street, #22-03, CapitaGreen, Singapore, 048946, Singapore
Planar Investments Private Ltd	OS	24.7%	1 Phillip Street, #06-02, Royal One Phillip, Singapore, 048692, Singapore
<b>United States</b>			
A10 Capital Parent Company LLC	COS	20%	1209 Orange Street, Wilmington, Delaware, 19801, USA

#### Share class abbreviations

CS	Capital shares.
COS	Common stock.
NCRPS	Non-cumulative redeemable preference shares.
CPS	Convertible preference shares.
D	Deferred shares.
OS	Ordinary shares.
PI	Partnership interest.
PS	Promote shares.
R	Redeemable preference shares.

#### Footnotes

- a Owned through Benchmark Capital Limited.
- b Held directly by the Company.
- c Owned through BlueOrchard Finance AG.
- d The Company holds ordinary B shares.
- e The Company holds ordinary A shares.
- f Dormant company.
- g The Company also holds convertible loan notes, taking the Group's effective holding to 65%.
- h Financial year end 31 March.



### 38. Subsidiaries and other related undertakings continued

#### (b) Related undertakings arising from the Company's interests in structured entities

The Company's related undertakings also include funds in which it holds investments. These include fully and partially owned funds that are classified as subsidiaries. Due to the number of share classes or unit classes that can exist in these vehicles, a significant holding in a single share class or unit class is possible without that undertaking being classified as a subsidiary or associate.

##### Fully owned subsidiaries

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder Flexible Retirement Benefit Fund	X Accumulation	100%	100%
<b>Brazil</b>			
Schroder Core Plus FIC FIA	I Accumulation	100%	100%
<b>Luxembourg</b>			
ICBC (Europe) UCITS SICAV	Unspecified	100%	100%
Schroder ISF Alternative Securitised Income	IZ Accumulation	100%	100%
Schroder ISF Global Credit Income Short Duration	I Accumulation	100%	100%
Schroder ISF Multi-Asset PIR Italia	C Accumulation	100%	100%
Schroder Property FCP – FIS – Schroder Property German Residential Fund	B	100%	100%
SIF Global Credit Opportunities	I Accumulation	100%	100%

##### Subsidiaries where the ownership is less than 100%

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder Advanced Beta Global Equity Value Fund	X Accumulation	86%	86%
Schroder Diversified Growth Fund	I Accumulation	95%	95%
Schroder Dynamic Multi Asset Fund	Z Accumulation	58%	55%
Schroder Dynamic Planner Portfolio 3	Z Accumulation	87%	87%
Schroder Dynamic Planner Portfolio 4	Z Accumulation	51%	50%
Schroder Dynamic Planner Portfolio 5	Z Accumulation	56%	56%
Schroder Dynamic Planner Portfolio 6	Z Accumulation	76%	76%
Schroder Dynamic Planner Portfolio 7	Z Accumulation	80%	80%
Schroder Global Emerging Markets Fund	A Accumulation	65%	41%
Schroder ISF Sustainable EURO Credit	I Accumulation	55%	55%
Schroder Long Dated Corporate Bond Fund	I Accumulation	76%	40%
Schroder Multi-Asset Total Return Fund	X Accumulation	99%	59%
Schroder QEP Global Active Value Fund	I Accumulation	96%	40%
Schroder QEP Global Emerging Markets	I Accumulation	92%	88%
Schroder Responsible Value UK Equity Fund	I Accumulation	86%	53%
Schroder Securitised Credit Fund Limited	A Distribution	89%	89%
Schroder Sustainable Multi-Factor Equity Fund	X Accumulation	92%	92%
<b>Australia</b>			
Schroder Absolute Return Income Fund	W Distribution	93%	93%
<b>Brazil</b>			
Schroder Best Ideas FIA	Unspecified	99%	99%
Schroder Fundo de Investimento Multimercado Low Vol	Unspecified	99%	99%
<b>Japan</b>			
Schroder Global CB Fund PPIT Unhedged	Unspecified	64%	64%
Schroder Global CB PPIT Hedged	Unspecified	53%	53%
Schroder YEN Target (Semi-Annual)	Unspecified	72%	72%
<b>Luxembourg</b>			
Schroder Alternative Solutions Argentine Bond Fund	C Accumulation	95%	89%
Schroder Alternative Solutions Asian Long Term Value Fund	I Accumulation	82%	81%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation GBP Hedged	99%	9%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation EUR Hedged	69%	0%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation	98%	89%

# Schroders plc – Notes to the accounts continued

## 38. Subsidiaries and other related undertakings continued

### (b) Related undertakings arising from the Company's interests in structured entities continued

Subsidiaries where the ownership is less than 100% continued

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<b>Luxembourg (continued)</b>			
Schroder GAIA Helix	I Accumulation	100%	72%
Schroder GAIA Helix	C Accumulation GBP Hedged	96%	0%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	70%
Schroder GAIA II Specialist Private Equity	Unspecified	34%	34%
Schroder GAIA Nuveen US Equity Long Short	I Accumulation	50%	50%
Schroder GAIA Nuveen US Equity Market Neutral	I Accumulation	50%	48%
Schroder ISF Alternative Risk Premia	I Accumulation	42%	33%
Schroder ISF Emerging Markets Equity Alpha	I Accumulation	33%	33%
Schroder ISF European Large Cap	I Accumulation	71%	61%
Schroder ISF European Sustainable Equity	I Accumulation	60%	59%
Schroder ISF Global Credit Value	I Accumulation	99%	99%
Schroder ISF Global Disruption	I Accumulation	61%	52%
Schroder ISF Global Sustainable Convertible Bond	I Accumulation	47%	38%
Schroder ISF Healthcare Innovation	I Accumulation	100%	99%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation	100%	4%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation EUR Hedged	87%	0%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation GBP Hedged	100%	55%
<b>United States</b>			
Hartford Schroders Opportunistic Income Fund	Unspecified	50%	50%

## Associates

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder Advanced Beta Global Equity Small and Mid Cap Fund	X Accumulation	87%	39%
Schroder Fusion Managed Defensive Fund	F Accumulation	35%	35%
Schroder Fusion Portfolio 3	F Accumulation	25%	25%
Schroder India Equity	X Accumulation	29%	28%
<b>Japan</b>			
Schroder YEN Target (Annual)	Unspecified	34%	34%
<b>Luxembourg</b>			
Schroder ISF Dynamic Indian Income Bond	I Accumulation	45%	45%
<b>United States</b>			
Schroder Absolute Return Emerging Markets Debt Portfolio LP	Unspecified	21%	21%

## Significant holdings in structured entities not classified as subsidiaries or associates

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<b>UK</b>			
Schroder Advanced Beta Global Corporate Bond Fund	X Accumulation	36%	12%
Schroder Advanced Beta Global Sovereign Bond Fund	X Accumulation	61%	16%
Schroder All Maturities Corporate Bond Fund	I Accumulation	43%	13%
Schroder European Fund	I Income	35%	3%
Schroder Global Equity Fund	I Accumulation	34%	19%
Schroder Institutional Developing Markets Fund	B Income	95%	11%
Schroder Institutional Pacific Fund	I Accumulation	39%	14%
Schroder QEP Global Core Fund	I Accumulation	34%	11%
Schroder Sterling Broad Market Bond Fund	I Accumulation	66%	8%
Schroder UK Mid 250 Fund	L Accumulation	39%	7%
Schroder US Equity Income Maximiser	L Accumulation GBP Hedged	79%	0%
Schroders Global Multi Factor Equity Fund	X Accumulation	36%	7%

### 38. 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 continued

Fund Name	Share/unit class	Holding in share/unit class	Total holding in undertaking via share/unit class
<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>Luxembourg</b>			
Schroder Alternative Solutions Agriculture Fund	I Accumulation	99%	0%
Schroder Alternative Solutions Agriculture Fund	I Accumulation EUR Hedged	100%	0%
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedged	94%	0%
Schroder Alternative Solutions Commodity Fund	I Accumulation GBP Hedged	100%	0%
Schroder GAIA BlueTrend	I Accumulation CHF Hedged	67%	1%
Schroder GAIA Two Sigma Diversified	C Accumulation	59%	10%
Schroder ISF Asian Local Currency Bond	I Accumulation	100%	0%
Schroder ISF China A	I Accumulation	29%	12%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation EUR Hedged	100%	0%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation	31%	6%
Schroder ISF Global Credit Income	I Accumulation	100%	0%
Schroder ISF Global Energy	I Accumulation	100%	0%
Schroder ISF Global Gold	I Accumulation EUR Hedged	99%	0%
Schroder ISF Global Gold	I Accumulation	100%	1%
Schroder ISF Global High Yield	I Accumulation GBP Hedged	49%	0%
Schroder ISF Global Multi-Asset Balanced	I Accumulation CHF Hedged	100%	2%
Schroder ISF Global Recovery	I Accumulation	23%	1%
Schroder ISF Global Target Return	I Accumulation	52%	11%
Schroder ISF Middle East	I Accumulation	100%	0%
Schroder ISF Multi-Asset Total Return	I Accumulation EUR Hedged	98%	0%
Schroder ISF QEP Global ESG	I Accumulation	39%	11%
Schroder ISF QEP Global Value Plus	I Accumulation	100%	7%
Schroder ISF Strategic Beta	I Accumulation	99%	2%
Schroder ISF Strategic Bond	I Accumulation EUR Hedged	100%	0%
Schroder ISF Swiss Equity Opportunities	I Accumulation	21%	1%
Schroder ISF US Large Cap	I Accumulation	38%	7%
Schroder Property FCP – FIS – Schroder Property Eurologistics Fund No.1 (A)	B	100%	1%
Schroder Property FCP – FIS – Schroder Property Eurologistics Fund No.1 (B)	B	100%	3%

The registered offices for each of the related undertakings listed on page 183 to 185 and in the table above are reflected by country below:

#### UK

1 London Wall Place, London, EC2Y 5AU, England

#### Australia

Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia

#### Brazil

Av. Presidente Wilson, nº 231, 11º andar, Rio de Janeiro, Brazil

#### Cayman Islands

Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands

#### Japan

The registered office for the following related undertakings is 1-8-3 Marunouchi Chiyoda-Ku, Tokyo, Japan

Schroder Global CB Fund PPIT Unhedged  
Schroder Global CB PPIT Hedged

The registered office for the following related undertakings is 1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1<sup>st</sup> Building, Saitama Prefecture, 330-9716, Japan

Schroder YEN Target (Annual)  
Schroder YEN Target (Semi-Annual)

#### Luxembourg

The registered office for the Luxembourg related undertakings is 5 rue Höhenhof, L-1736 Senningerberg, Luxembourg, except for the following:

The registered office for the following related undertakings is 80, route d'Esch, L-1470 Luxembourg

ICBC (Europe) UCITS SICAV

Schroder Property FCP-FIS – Schroder Property German Residential Fund  
Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (A)  
Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (B)

#### United States

The registered office for the following related undertaking is 7 Bryant Park, New York, New York, 10018, USA

Schroder Absolute Return Emerging Markets Debt Portfolio LP

The registered office for the following related undertaking is C/O Corporation Service Company, Wilmington, Delaware, 19808, USA

Hartford Schroders Opportunistic Income Fund

# Independent auditor's report to the members of Schroders plc

## Opinion

In our opinion, the financial statements of Schroders plc (the 'Parent company') and its subsidiaries (collectively, the 'Group'):

- give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU'); and
- have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Schroders plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2019	Schroders plc - Statement of financial position at 31 December 2019
Consolidated statement of comprehensive income for the year ended 31 December 2019	Schroders plc - Statement of changes in equity for the year ended 31 December 2019
Consolidated statement of financial position at 31 December 2019	Schroders plc - Cash flow statement for the year ended 31 December 2019
Consolidated statement of changes in equity for the year ended 31 December 2019	Schroders plc - Notes to the accounts 30 to 38
Consolidated cash flow statement for the year ended 31 December 2019	
Notes to the accounts 1 to 29 and Presentation of the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 44 to 51 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 51 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 111 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 51 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>– Improper recognition of revenue</li> <li>– Improper recognition of cost of sales</li> <li>– Accounting for corporate activity</li> </ul> <p>The first two risks are significant risks, consistent with the 2018 audit.</p>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>– The Group is comprised of over 200 legal entities domiciled in 29 countries.</li> <li>– We performed an audit of the complete financial information of seven legal entities and audit procedures on specific balances for a further 17 legal entities.</li> <li>– The legal entities where we performed full or specific audit procedures accounted for 98% of profit before tax and exceptional items, 92% of revenue and 99% of total assets.</li> <li>– Certain of the Group's processes over financial reporting are centralised in the finance operations hubs of London, Luxembourg, Singapore and Zurich and as a result, the majority of our testing was performed in these locations.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>– Overall Group materiality of £35 million, which represents 5% of profit before tax and exceptional items.</li> </ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p><b>Group only risk:</b>  <b>Improper recognition of revenue (£2,537.0 million, 2018: £2,626.4 million)</b></p> <p><i>Refer to the Audit and Risk Committee report (page 66) and Note 2 of the Consolidated financial statements (pages 120 to 123)</i></p> <p>Schroders manages funds in numerous domiciles, which consist of many share classes. Schroders also manages segregated portfolios for a range of institutions and provides wealth management services. The inputs and calculation methodologies that drive the fees vary significantly across this population. In particular, performance fees and segregated accounts have a range of calculation methodologies due to the number of bespoke arrangements. For certain revenue streams, management must apply judgment in accordance with IFRS 15 – Revenue from contracts with customers ('IFRS 15') to determine whether it is highly probable that a significant reversal will not occur in the future.</p> <p>The following are identified as the key risks or subjective areas of revenue recognition:</p> <ul style="list-style-type: none"> <li>– not all agreements in place have been identified and accounted for;</li> <li>– fee terms have not been correctly interpreted or entered into the fee calculation and billing systems;</li> <li>– assets under management ('AUM') has not been properly attributed to fee agreements;</li> <li>– errors in manually calculated revenues, such as performance fees and carried interest; and</li> <li>– inappropriate judgments are made by management in the calculation and recognition of carried interest.</li> </ul> <p>There is also the risk that management may influence the recognition of revenue in order to meet market expectations or net operating revenue-based targets.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>– confirmed and updated our understanding of the procedures and controls in place throughout the revenue process, both at Schroders, through walkthrough procedures, and at third party administrators, through review of independent controls assurance reports;</li> <li>– IT systems: tested the controls over access to, and changes to, the systems underpinning the revenue process, including testing controls over the flow of data between systems for completeness and accuracy;</li> <li>– fee agreements: tested the controls over new and amended fee agreements. For a sample of fees, agreed the fee terms used in the calculation to investment management agreements ('IMAs'), fee letters or fund prospectuses. Verified management's interpretation of the calculation methodology as set out in the agreement and applied in the revenue systems or in management's manual calculations;</li> <li>– calculation: tested automated controls over the arithmetical accuracy of fee calculations within the relevant systems;</li> <li>– AUM: tested the controls in place for the calculation and existence of AUM used in the fee calculation. For a sample of fees, tested the completeness and accuracy of AUM included in the fee calculation systems to administrator reports or Schroders' investment management systems;</li> <li>– billing: tested controls over the billing and cash management process. For a sample of fees, agreed the amounts recorded to the invoice sent to the client, as well as assessing the recoverability of debtors through subsequent cash receipt and inspection of the aged debtors report;</li> <li>– carried interest: challenged management over the judgments and estimates used in the valuation of the carried interest receivable, as follows: for a sample of Schroder AdvEq funds, agreed the inputs used in the carried interest calculations to accounting records, third party sources and legal agreements, recalculated the value of the carried interest receivable, and traced the discounted carried interest income to the revenue recorded;</li> <li>– performance fees: for a sample of performance fees, we have agreed the inputs used in the performance fee calculations to accounting records, third party sources and legal agreements;</li> <li>– review of other information: inspected the global complaints register and operational incident log to identify any indication of errors in revenue; and</li> <li>– management override: in order to address the residual risk of management override we have performed enquiries of management, read minutes throughout the year and performed journal entry testing.</li> </ul> <p>We performed full and specific scope audit procedures over this risk area in five locations, which covered 92% of the total revenue. Due to the centralised nature of the revenue process, the majority of our testing was performed in London and Luxembourg for Asset Management revenue and Zurich for Wealth Management revenue.</p>

## Key observations communicated to the Schroders Audit and Risk Committee

All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Revenue has been recorded materially in accordance with IFRS 15.

Based on the procedures performed, we have no matters to report in respect of revenue recognition.

# Independent auditor's report to the members of Schroders plc continued

Risk	Our response to the risk
<p><b>Group only risk:</b>  <b>Improper recognition of cost of sales (£484.6 million, 2018: £555.7 million)</b></p> <p><i>Refer to the Audit and Risk Committee report (page 66) and Note 2 of the Consolidated financial statements (pages 120 to 123)</i></p> <p>Schroders has fee expense agreements in place with many parties. These expenses include: commissions, carried interest payable, external fund manager fees, and distribution fees payable to financial institutions, investment platform providers and financial advisers. The expenses are generally based on AUM.</p> <p>The following are identified as the key risks or subjective areas in correctly recognising fee expense:</p> <ul style="list-style-type: none"> <li>– not all agreements in place have been identified and accounted for;</li> <li>– fee expense terms have not been correctly interpreted;</li> <li>– AUM has not been properly identified or attributed to clients or third parties with fee expense arrangements; and</li> <li>– inappropriate judgments are made by management in the calculation of carried interest payable.</li> </ul> <p>There is also the risk that management may influence the recognition of cost of sales in order to meet market expectations or net operating revenue-based targets.</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>– confirmed and updated our understanding of the procedures and controls in place throughout the cost of sales process, both at Schroders, through walkthrough procedures, and at third party administrators, through review of independent controls assurance reports;</li> <li>– IT systems: tested the controls over access to, and changes to, the systems underpinning the fee expense process, including testing controls over the flow of data between systems to test completeness and accuracy;</li> <li>– fee expense agreements: tested the controls over new and amended fee expense agreements. For a sample of fee expenses performed by Schroders and an additional sample performed by external third parties, agreed the fee expense terms used in the calculation to IMAs, fee letters or rebate agreements. Verified management's interpretation of the calculation methodology as set out in the agreement and applied in the fee expense systems. For an additional sample of fee expenses, confirmed fee expense terms used in the calculation directly with the distributor;</li> <li>– calculation: tested automated controls over the arithmetical accuracy of fee expense calculations within the relevant systems;</li> <li>– AUM: tested the controls in place for the calculation and existence of AUM used in the fee expense calculations. For a sample of fee expenses, tested the completeness and accuracy of the AUM included in the calculation to Schroders' transfer agency or investment management systems;</li> <li>– billing: tested controls over the billing and cash management process. For a sample of fee expenses, agreed the amounts recorded to the invoice sent to the client;</li> <li>– carried interest: challenged management over the judgments and estimates used in the valuation of the carried interest liability. For a sample of Schroder Adveq funds: agreed the inputs used in the carried interest calculations to accounting records, third party sources and legal agreements; recalculated the value of the carried interest liability; and traced the discounted carried interest expense to the cost of sales recorded;</li> <li>– review of other information: inspected the global complaints register and operational incident log to identify errors in fee expense and verified that fee expense errors have been appropriately addressed; and</li> <li>– management override: in order to address the residual risk of management override we have performed enquiries of management, read minutes throughout the year and performed journal entry testing.</li> </ul> <p>We performed full and specific scope audit procedures over this risk area in London and Luxembourg, which covered 90% of total cost of sales.</p>

## Key observations communicated to the Schroders Audit and Risk Committee

All transactions tested have been recognised in accordance with the underlying agreements or other supporting documentation. Cost of sales has been recorded materially in accordance with IAS 1 – Presentation of Financial Statements ('IAS 1'). Based on the procedures performed, we have no matters to report in respect of cost of sales.



## Prior year comparison

In the current year, our auditor's report includes a key audit matter in relation to 'Accounting for corporate activity'. This matter resulted in increased audit effort in the current year due to the total number and materiality of transactions undertaken during the year and their overall significance to the Schroders business. Accounting for transactions outside the ordinary course of business can be complex and management must make specific accounting judgments for each transaction.

Risk	Our response to the risk
<p><b>Group only risk:</b>  <b>Accounting for corporate activity (additions to joint ventures £196.3 million, 2018: £nil; additions to goodwill and acquired intangible assets £154.4 million, 2018: £97.9 million)</b></p> <p><i>Refer to the Audit and Risk Committee report (page 66) and Notes 10, 13 and 29 of the Consolidated financial statements (pages 131 to 133, 134 to 136 and 165 to 166)</i></p> <p>Accounting for acquisitions, investments and disposals can be complex. Management must use their judgment to determine how these transactions should be accounted for and disclosed in the consolidated financial statements. There is a risk that the approach adopted by management may not be in line with the applicable accounting standards: IFRS 11 – Joint Arrangements ('IFRS 11'), IAS 28 – Investments in Associates and Joint Ventures ('IAS 28'), IFRS 3 – Business Combinations ('IFRS 3') and IFRS 10 – Consolidated Financial Statements ('IFRS 10').</p> <p>Intangible assets arose in the year when the Group acquired or invested in businesses and the fair value of the consideration exceeded the fair value of the net tangible assets acquired. Certain transactions entered into during the year required management to estimate the value of the intangible assets recognised on acquisition. The assessment is subjective and requires a number of estimates to be made by management in respect of: future revenues, profit margins, discount rates and duration of client relationships. There is a risk that inaccurate estimates made by management could lead to the incorrect valuation of intangible assets being recognised.</p> <p>The most significant corporate activity in 2019 related to:</p> <ul style="list-style-type: none"> <li>– the partnership with Lloyds Banking Group plc, which resulted in an investment in Scottish Widows Schroder Wealth Holdings Limited of £196.3 million and the disposal of a 19.9% stake in Schroder Wealth Holdings Limited to Lloyds Banking Group plc;</li> <li>– the acquisition of a 70% stake in BlueOrchard Finance AG for £90.6 million;</li> <li>– the acquisition of Blue Asset Management GmbH for £22.8 million; and</li> <li>– the acquisition of the wealth management business of ThirdRock.</li> </ul>	<p>Our procedures tested the corporate activity outlined in the risk description.</p> <p>We obtained an understanding of management's processes and controls for the recognition of the corporate activity during the year by performing walkthrough procedures and discussing with management the governance structure and protocols around their oversight of the accounting for these transactions. We adopted a fully substantive approach to our testing.</p> <p>For each transaction in excess of our testing threshold, we performed the following procedures to assess whether the transaction had been accounted for in line with the applicable accounting standards and whether the judgments and estimates made by management in the valuation of intangible assets recognised were appropriate:</p> <ul style="list-style-type: none"> <li>– understood the nature of each transaction by obtaining and reading the relevant legal agreements and other supporting documentation to assess whether all material contractual obligations had been accounted for;</li> <li>– consequently we challenged the accounting judgments made by forming an independent view of how the transaction should be accounted for, and compared this to management's existent accounting;</li> <li>– obtained and read management's papers to assess whether the methodology used to identify and ascribe value to the intangible assets acquired is in accordance IAS 38 - Intangible Assets ('IAS 38') and market practice valuation techniques;</li> <li>– with the support of our valuation specialists we formed an independent range for the key assumptions used in the valuation of the intangible assets acquired, with reference to relevant industry and market valuation considerations. We then derived a range of values using our assumptions and we compared this to management's valuation. We discussed our results with both management and the Audit Committee; and</li> <li>– reviewed the disclosures in the Annual Report and Accounts for the year ended 31 December 2019.</li> </ul>

### Key observations communicated to the Schroders Audit and Risk Committee

All transactions tested have been materially accounted for in accordance with IFRS. The valuation of intangible assets recognised on acquisition are within a reasonable range. Based on our procedures performed, we have no matters to report in respect of accounting for corporate activity.

# Independent auditor's report to the members of Schroders plc continued

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

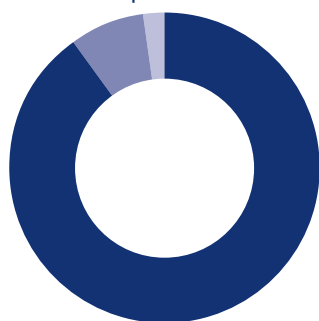
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 24 legal entities within the following countries: United Kingdom, Guernsey, Switzerland, Luxembourg, Singapore, United States of America, China, Italy, Japan, Australia and Indonesia, which represent the principal business units within the Group.

Of the 24 legal entities selected, we performed an audit of the complete financial information of seven legal entities (full scope entities) which were selected based on their size or risk characteristics. For the remaining 17 legal entities (specific scope entities), we performed audit procedures on specific accounts within that legal entity that we considered had the potential for the greatest impact on the significant accounts in the Group financial statements, either because of the size of these accounts or their risk profile.

For the remaining entities that together represent 2% of the Group's profit before tax and exceptional items, we performed other Group procedures, including: analytical review, testing of consolidation journals and intercompany eliminations, tests of financial systems, centralised processes and controls, and foreign currency translation recalculations, to respond to any potential risks of material misstatement to the Group financial statements.

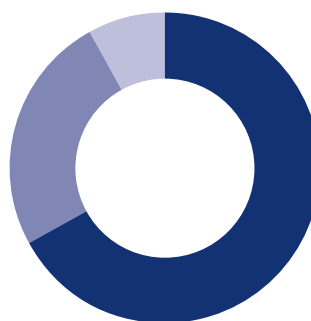
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax and exceptional items



■ Full scope components	90% (2018: 96%)
■ Specific scope components	8% (2018: 2%)
■ Other procedures	2% (2018: 2%)

Revenue



■ Full scope components	67% (2018: 68%)
■ Specific scope components	25% (2018: 26%)
■ Other procedures	8% (2018: 6%)

### Changes from the prior year

Schroder (C.I.) Limited was considered a full scope entity for the current year audit. It was previously considered to be specific scope.

### Involvement with overseas teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the legal entities by us, as the Group audit team, or by local auditors from other EY global network firms operating under our instruction.

Schroders has centralised processes and controls over financial reporting within the finance operations hubs of London, Luxembourg, Singapore and Zurich. Our teams performed centralised testing in the finance hubs for certain accounts including revenue, costs of sales, administrative expenses, variable compensation, provisions and intercompany transactions.

For non-centralised processes, the audit work was performed by legal entity auditors. The Group audit team was responsible for the scope and direction of the audit process in each entity, interacted regularly with the local EY teams during each stage of the audit and reviewed key working papers. This, together with the additional procedures performed at Group level, and the centralised testing, gave us appropriate evidence for our opinion on the Group financial statements.

During 2019, the Senior Statutory Auditor, Julian Young, and other Group audit team members visited legal entities across four countries, including each of the finance operations hubs. This allowed the Group team to gain a greater understanding of the business issues faced in each location, discuss the audit approach with the local team and any issues arising from their work, meet with local management, attend key meetings and review key audit working papers. The visits also promoted deeper engagement with our EY audit teams, ensuring that a consistent audit approach was adopted and that a high quality audit was executed. The countries visited were: Luxembourg, Switzerland, Singapore and the United States of America.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £35 million (2018: £38 million), which is 5% (2018: 5%) of profit before tax and exceptional items. We believe that profit before tax and exceptional items is the most relevant performance measure to the stakeholders of the entity.

We determined materiality for the Parent company to be £47 million (2018: £46 million), which is 1% (2018: 1%) of net assets. The Parent company primarily holds the investments in Group entities and, therefore, net assets is considered to be the key focus for users of the financial statements.

During the course of our audit, we reassessed initial materiality based on 31 December 2019 profit before tax and exceptional items, and adjusted our audit procedures accordingly.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 75% (2018: 50%) of our planning materiality, namely £26 million (2018: £19 million). We have used a higher threshold than in our first-year audit because we now have prior experience as to the likelihood of misstatements and the effectiveness of the control environment and accounting processes.

Audit work at entity level, for the purpose of obtaining audit coverage over significant financial statement accounts, is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the range of performance materiality allocated to individual entities was £5.2 million to £14.3 million (2018: £3.9 million to £10.8 million).

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £1.7 million (2018: £1.9 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 112 and 194 to 198, including the Strategic report, Governance, and Shareholder information sections, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 112 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit and Risk Committee reporting set out on pages 66 to 71 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee or is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 56 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

# Independent auditor's report to the members of Schroders plc continued

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 112, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and UK Corporate Governance Code) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules and relevant Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') rules and regulations.
- We understood how Schroders plc is complying with those frameworks by making enquiries of senior management, including the Chief Financial Officer, General Counsel, Company Secretary, Head of Compliance, Head of Risk, Head of Internal Audit and the Chairman of the Audit and Risk Committee. We corroborated our understanding through our review of board and Committee meeting minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage or influence the perceptions of analysts. We considered the controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management, including those at full and specific scope entities; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Other matters we are required to address:**

- We were appointed by the Parent company on 9 March 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. Our appointment as auditor was approved by shareholders at the Annual General Meeting on 26 April 2018.
- The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 2018 to 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the Audit Results Report to the Audit and Risk Committee.

#### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Julian Young (Senior statutory auditor)**

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

4 March 2020

# Shareholder information

## Schroders plc

Registered in England and Wales Company No. 3909886

### Registered office

1 London Wall Place, London, EC2Y 5AU  
Tel: +44 (0) 20 7658 6000  
Fax: +44 (0) 20 7658 6965  
Email: [companysecretary@schroders.com](mailto:companysecretary@schroders.com)  
Website: [schroders.com](http://schroders.com)

### Share Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ

### UK Shareholder helpline:

Freephone (UK callers only): 0800 923 1530  
International: +44 117 378 8170  
Fax: +44 (0) 370 703 6101  
Website: [investorcentre.co.uk](http://investorcentre.co.uk)

### Financial calendar

Ex-dividend date	26 March 2020
Record date	27 March 2020
DRIP election date deadline	16 April 2020
Annual General Meeting	30 April 2020
Final dividend payment date	7 May 2020
Half-year results announcement	30 July 2020
Interim dividend paid*	September 2020

\* Date to be confirmed.

### Annual General Meeting

Our AGM will be held at 11.30 a.m. on 30 April 2020 at 1 London Wall Place, London, EC2Y 5AU.

### Investor Centre

Computershare is the Company's share registrar. Investor Centre is Computershare's free, self-service website where shareholders can manage their interests online.

The website enables shareholders to:

- View share balances
- Change address details
- View payment and tax information
- Update payment instructions
- Update communication instructions

Shareholders can register their email address at [investorcentre.co.uk](http://investorcentre.co.uk) to be notified electronically of events such as AGMs, and can receive shareholder communications such as the Annual Report and Accounts and the Notice of Meeting online.

Enquiries and notifications concerning dividends, share certificates or transfers and address changes should be sent to the Registrar.

## Dividends

Paying dividends into a bank or building society account helps reduce the risk of fraud and will provide you with quicker access to your funds than payment by cheque. Applications for an electronic mandate can be made by contacting the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated dividend confirmation, which will be sent to you in September each year at the time the interim dividend is paid.

Dividend confirmations are available electronically at [investorcentre.co.uk](http://investorcentre.co.uk) to those shareholders who have their payments mandated to their bank or building society accounts and who have expressed a preference for electronic communications.

The Company operates a Dividend Reinvestment Plan (DRIP), which provides shareholders with a way of increasing their shareholding in the Company by reinvesting their dividends. A copy of the DRIP terms and conditions and application form can be obtained from the Registrar.

Details of dividend payments can be found in the Directors' report on page 110.

Schroders offers a service to shareholders in participating countries that enables dividends to be received in local currencies. You can check your eligibility and/or request a mandate form by contacting the Registrar.

## Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FCA before getting involved by visiting [register.fca.org.uk](http://register.fca.org.uk).
- Report the matter to the FCA by calling 0800 111 6768 or visiting [fca.org.uk/consumers/report-scam-unauthorised-firm](http://fca.org.uk/consumers/report-scam-unauthorised-firm).
- Do not deal with any firm that you are unsure about.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at [fca.org.uk/consumers/unauthorised-firms-individuals#list](http://fca.org.uk/consumers/unauthorised-firms-individuals#list).

More detailed information on this or similar activity can be found on the FCA website at [fca.org.uk/consumers/protect-yourself-scams](http://fca.org.uk/consumers/protect-yourself-scams).

## Capital gains tax

Capital gains tax values for the Company's shares as at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.



# Five-year consolidated financial summary

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
<b>Before exceptional items</b>					
Profit before tax	701.2	761.2	800.3	644.7	609.7
Tax	(140.5)	(163.3)	(171.6)	(132.4)	(126.3)
<b>Profit after tax</b>	<b>560.7</b>	597.9	628.7	512.3	483.4
<b>After exceptional items</b>					
Profit before tax	624.6	649.9	760.2	618.1	589.0
Tax	(128.9)	(145.2)	(165.8)	(127.9)	(121.6)
<b>Profit after tax</b>	<b>495.7</b>	504.7	594.4	490.2	467.4
<b>Pre-exceptional earnings per share:</b>					
	2019 Pence	2018 Pence	2017 Pence	2016 Pence	2015 Pence
Basic earnings per share <sup>1</sup>	201.6	215.8	226.9	186.3	176.9
Diluted earnings per share <sup>1</sup>	198.0	211.8	222.4	182.4	172.2
<b>Post-exceptional earnings per share:</b>					
	2019 Pence	2018 Pence	2017 Pence	2016 Pence	2015 Pence
Basic earnings per share <sup>1</sup>	178.9	183.1	215.3	178.3	171.1
Diluted earnings per share <sup>1</sup>	175.8	179.7	211.0	174.5	166.5
<b>Dividends:</b>					
	2019	2018	2017	2016	2015
Cost (£m)	312.3	311.7	267.6	236.6	226.3
Pence per share <sup>2</sup>	114.0	114.0	98.0	87.0	83.0
<b>Total equity (£m)</b>	<b>3,847.5</b>	3,621.2	3,471.0	3,152.8	2,795.6
<b>Net assets per share (pence)<sup>3</sup></b>	<b>1,362</b>	1,282	1,229	1,115	990
<b>Group employees at year end 31 December</b>					
	2019 Number	2018 Number	2017 Number	2016 Number	2015 Number
United Kingdom	3,284	2,798	2,535	2,264	1,988
Europe, Middle East and Africa	964	873	822	716	686
Americas	376	369	353	331	321
Asia Pacific	1,049	999	909	834	789
	<b>5,673</b>	5,039	4,619	4,145	3,784
<p>1. See note 6 for the basis of this calculation.</p> <p>2. Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.</p> <p>3. Net assets per share are calculated by using the actual number of shares in issue at the year end date (see note 21).</p>					
<b>Exchange rates – closing 31 December</b>	2019	2018	2017	2016	2015
Sterling:					
Euro	1.18	1.11	1.13	1.17	1.36
US dollar	1.32	1.27	1.35	1.24	1.47
Swiss franc	1.28	1.26	1.32	1.26	1.48
Australian dollar	1.88	1.81	1.73	1.71	2.03
Hong Kong dollar	10.32	9.97	10.57	9.58	11.42
Japanese yen	143.97	139.73	152.39	144.12	177.30
Singaporean dollar	1.78	1.74	1.81	1.79	2.09
<b>Exchange rates – average</b>	2019	2018	2017	2016	2015
Sterling:					
Euro	1.14	1.13	1.15	1.23	1.38
US dollar	1.28	1.33	1.30	1.36	1.53
Swiss franc	1.27	1.30	1.27	1.34	1.48
Australian dollar	1.84	1.78	1.69	1.83	2.04
Hong Kong dollar	10.03	10.44	10.10	10.52	11.84
Japanese yen	139.63	147.17	145.42	149.31	184.79
Singaporean dollar	1.74	1.80	1.79	1.88	2.10

# Glossary

## Alternative performance measures

An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Certain of the Group's APMs exclude exceptional items which are defined in note 1(b) on page 119 and presented separately in the Consolidated income statement. The Group's APMs are defined below.

### Annualised net new revenue

The net operating revenue that would be earned over a one year timeframe if the net new business was all transacted on the same day and there were no market movements or other changes to assets under management or fee rates over that year. It is calculated as gross new funds from clients multiplied by the applicable net operating revenue margin for each flow, less gross funds withdrawn multiplied by the applicable net operating revenue margin for each flow. This measure provides additional information to better assess the impact of net new business on the Group's net operating revenue.

### Basic or diluted earnings per share before exceptional items

Profit after tax but before exceptional items divided by the relevant weighted average number of shares (see note 6 on page 127). The presentation of earnings per share before exceptional items provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

### Payout ratio

The total dividend per share in respect of the year (see note 7 on page 127) divided by the pre-exceptional basic earnings per share.

### Profit before tax and exceptional items

Profit before tax but excluding exceptional items. This presentation provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

### Ratio of total costs to net income

Total Group costs before exceptional items divided by net income before exceptional items. A 65% ratio is targeted to ensure costs are aligned with net income, although we recognise that in weaker markets the ratio may be higher than our long-term target.

### Total compensation ratio

Pre-exceptional compensation costs (see note 4 on page 125) divided by pre-exceptional net income. By targeting a total compensation ratio of 45% to 49%, depending upon market conditions, we align the interests of shareholders and employees.

## Active management

The management of investments based on active decision-making rather than with the objective of replicating the return of an index.

### AIFMD

The Alternative Investment Fund Managers Directive was implemented in the UK in July 2013 and is a regulatory framework for alternative investment fund managers, including managers of hedge funds, private equity firms and investment trusts.

### Alpha

Excess return over market returns relative to a market benchmark.

### Assets under management (AUM)

The aggregate value of assets managed on behalf of clients. In Wealth Management this includes assets where Schroders provides advisory services but the investment decisions are made by the client. AUM also includes assets held in custody where the client independently makes investment decisions, whether it is through direct contact with Schroders or via the Fusion wealth platform.

For Schroder Adveq, the aggregate value of assets managed is based on committed funds by clients. This is changed to the lower of committed funds and net asset value, typically after seven years from the initial investment, in line with the fee basis.

### Basis point (bps)

One one-hundredth of a percentage point (0.01%).

### Beta

Market returns.

### Business areas

The five business areas that make up our business are described as:

- i) Private Assets & Alternatives - investment opportunities available through private markets such as real estate, private equity and infrastructure finance, and alternative investments
- ii) Solutions - provision of complete solutions and partnerships, including liability offsets and risk mitigation
- iii) Mutual Funds - Mutual Funds are provided through our intermediary network for retail clients, which are solely or dual-branded 'Schroders'
- iv) Institutional - provision of index-relative investment components for institutions as a component of their overall investment strategy or as part of a sub-advised mandate
- v) Wealth Management - a wide range of wealth management services, which focus on preserving or growing our clients' wealth

### BREEAM

BREEAM (Building Research Establishment Environmental assessment Method) is the world's longest established method of assessing, rating, and certifying the sustainability of buildings.

### 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.

### Carried interest

Carried interest is similar to the performance fees we earn on our core business, but is part of Private Assets & Alternatives fee structures.

### CDP

Also known as the Carbon Disclosure Project.

### Client investment performance

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

When a product's investment performance is disclosed in product or client documentation it is specific to the strategy or product.

Performance will either be shown net of fees at the relevant fund share-class level or it will be shown gross of fees with a fee schedule for the strategy supplied.

The calculation includes 100% of internally-managed Asset Management assets, excluding Liability-Driven Investments (LDI) strategies, that have a complete track record over the respective reporting period. Assets held in LDI strategies, which currently amount to £35.3 billion, are excluded as these are not seeking to outperform a stated objective but to match the liability profile of pension funds. Assets managed by third parties are excluded and primarily comprise the Luxembourg-domiciled GAIA fund range of £3.2 billion and legacy private equity assets of £1.4 billion. We do not calculate investment performance of hotels managed by Algonquin (AUM of £1.9 billion).

Performance is calculated relative to the relevant stated comparator for each strategy as below. These fall into one of four categories, the percentages for each of which refer to the three year calculation:

- For 77% of assets included in the calculation, the comparator is the stated benchmark.

- If the stated comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 4% of assets in the calculation.
- Assets for which the stated comparator is an absolute return target are measured against that absolute target. This applies to 11% of assets in the calculation.
- Assets with no stated objective are measured against a cash return, if applicable. This applies to 8% of assets in the calculation.

#### Clients

Within our Asset Management business we work with institutional clients, including pensions funds, insurance companies and sovereign wealth funds, as well as intermediaries, including financial advisers, private wealth managers, distributors and online platforms.

We also provide a range of Wealth Management services to private clients, family offices and charities.

At times, 'client' is used to refer to investors in our funds or strategies, i.e. the end client.

We are increasingly focused on building closer relationships with the end client, whose money is invested with us, often via an intermediary or institution.

#### CMA

Competition and Markets Authority.

#### Compensation cost

Total cost of employee benefits.

#### Defined benefit (DB) pension scheme

A pension benefit where the employer has an obligation to provide participating employees with pension payments that represent a specified percentage of their salary for each year of service.

#### Defined contribution (DC) pension scheme

A pension benefit where the employer's contribution to an employee's pension is measured as, and limited to, a specified amount, usually a percentage of salary. The value of the 'pension pot' can go up or down depending on how the investments perform.

#### DEFRA

Department for Environment, Food and Rural Affairs.

#### Employee benefit trust

A type of discretionary trust established to hold cash or other assets for the benefit of employees, such as to satisfy share awards.

#### EPS

Earnings per share.

#### ESG

Environmental, social and governance.

#### EU27

The 27 countries within the European Union involved with negotiating with the UK on Brexit.

#### Family offices

These manage and/or advise on the financial affairs and investments of ultra high net worth individuals or families.

#### FCA

Financial Conduct Authority of the United Kingdom.

#### Fitch investment management quality rating

A forward-looking, relative assessment of an investment manager's investment capabilities and the strength of its operational platform. Ratings have five key pillars: investment process; investment resources; risk management; investment performance and the company, including client servicing. Ratings are assigned on a five tiered scale from 'Excellent' to 'Weak'. Excellent indicates that the investment manager has extremely strong investment capabilities and operational characteristics.

#### FRC

Financial Reporting Council.

#### GAIA

Global Alternative Investor Access.

#### GHG Protocol

Greenhouse gas protocol, a global standardised framework to measure and manage greenhouse gas emissions.

#### GCC

Group Capital Committee.

#### GMC

Group Management Committee.

#### GOC

Global Operations Committee.

#### GRC

Group Risk Committee.

#### ICAAP

Internal Capital Adequacy Assessment Process.

#### IFRS

International Financial Reporting Standards.

#### ILAAP

Internal Liquidity Adequacy Assessment Process.

#### Investment capital

Capital held in excess of operating requirements. It is managed with the aim of achieving a low volatility return. It is mainly held in cash, government and government-guaranteed bonds, investment grade corporate bonds and Schroders' funds. Investment capital is also used to help support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions that will accelerate the development of the business.

#### Investment returns

The increase in AUM attributable to investment performance, market movements and foreign exchange.

#### LGBT+

Lesbian, Gay, Bisexual and Transgender and other groups of sexual and gender minorities.

#### Liability-driven investment (LDI)

A form of investing where the main goal is to gain and maintain sufficient assets to meet known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes.

#### Life Company

Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper.

#### MiFID II

The second iteration of the Markets in Financial Instruments Directive. MiFID II is an EU directive which standardises regulation for investment services throughout the European Economic Area.

#### MRTs

Material risk takers. Employees deemed to be material risk takers under one or more of the regulatory regimes that applies to the Group and its subsidiaries, such as the UCITS Directive or AIFMD.

#### Net income

A sub-total comprising net operating revenue, net gains on financial instruments and other income and share of profit of associates and joint ventures.

#### Net new business

New funds from clients less funds withdrawn by clients. This is also described as net inflows (when positive) or net outflows (when negative). New funds and funds withdrawn are calculated as at 31 December 2019 on the basis of actual funding provided or withdrawn.

#### Net zero carbon

A "net zero" target refers to reaching net zero carbon emissions by a selected date and refers to balancing the amount of emitted

# Glossary

greenhouse gases with the equivalent emissions that are either offset or sequestered.

## Net operating revenue

A sub-total consisting of revenue less cost of sales as defined in note 2 of the financial statements.

## Net operating revenue margins

Net operating revenue excluding performance fees, net carried interest and real estate transaction fees divided by the relevant average AUM.

## Passive products

Products whose stated objective is to replicate the return of an index.

## Pillar 1

The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal.

## Pillar 2

The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1.

## Pillar 3

This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at [schroders.com/ir](https://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.

## PRIIPs

Packaged Retail Investment and Insurance-based Products. PRIIPs make up a broad category of financial assets that are regularly provided to consumers in the EU. It covers all packaged, publicly marketed financial products that have exposure to underlying assets, provide a return over time and have an element of risk.

## Principal shareholder group

Four private trustee companies, a number of individuals and a charity which, directly or indirectly, are shareholders in Schroders plc and are parties to the Relationship Agreement. In aggregate these parties own 47.93% of the ordinary shares of Schroders plc.

## RCA

Risk and Control Assessment.

## RDR

The Retail Distribution Review (RDR) is a Financial Conduct Authority (FCA) initiative that aims to provide greater clarity about different types of financial services available. It also seeks to improve transparency around the costs and fees associated with financial advice. The amount of risk capital set by legislation or local regulators, which companies must hold against any difficulties such as market or credit risks.

## Regulatory surplus capital

Total equity less the Group's overall regulatory capital requirement and regulatory deductions, in accordance with the EU Capital Requirements Regulation as set out in the Group's Pillar 3 disclosures.

## Schroders Personal Wealth (SPW)

Schroders Personal Wealth is a joint venture between Lloyds Banking Group and Schroders. It provides personal wealth planning, advice and investment management services to clients in the UK.

## Seed and co-investment capital

Seed capital comprises an initial investment put into a fund or strategy by the business to allow it to develop a performance track record before it is marketed to potential clients. Co-investment comprises an investment made alongside our clients.

## Senior management

Members of the GMC (including the executive Directors of Schroders plc), the direct reports of members of the GMC and the direct reports one level below that, in each case excluding administrative and other ancillary roles.

## SMCR

Senior Managers and Certification Regime. FCA regulation which aims to strengthen market integrity by making senior individuals more accountable for their conduct and competence.

## TCFD

The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative to help investors understand their financial exposure to climate risk and help companies disclose this information in a clear and consistent way.

## Total capital requirement

The requirement to hold the sum of Pillar 1 and Pillar 2A capital requirements. Pillar 2A capital requirements are supplementary requirements for those risk categories not captured by Pillar 1, depending on specific circumstances of a company, as set out by the PRA.

## Total dividend per share

Unless otherwise stated, this is the total dividend in respect of the year, comprised of the interim dividend and the proposed final dividend. This differs from the IFRS dividend, which is comprised of the prior year final and current year interim dividends declared and paid during the year.

## Total equity

Total assets less total liabilities.

## UCITS

Undertakings for the Collective Investment in Transferable Securities. UCITS is a regulatory framework of the European Commission that creates a harmonised regime throughout Europe for the management and sale of investment funds.

## UCITS/AIF MRTs

Employees deemed to be material risk takers under the UCITS Directive or AIFMD.

## UK Stewardship Code

A set of principles or guidelines from the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies.

## UN PRI

The United Nations-supported Principles for Responsible Investment Initiative is an international network of investment companies working together to implement the six Principles for Responsible Investment. Its goal is to understand the implications of sustainability and support signatories to incorporate these issues into their investment decision making and ownership practices.



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