

DELIVERING ACTIVE PERFORMANCE



The past year has been extraordinary for us all. Managing a business and caring for other people's money meant addressing at least three crises: a financial crisis during March and April, an economic crisis and a social and health crisis, which are still with us.

Swift action from governments and central banks helped steady the financial system and lent support to global economies. Most importantly, the development of vaccines has given us hope that an easing of the health crisis is in sight. Nevertheless, the effects will be long lasting. Regardless of what comes next, I will continue to marvel at how the human race responded and adapted in the face of such adversity.

In the face of these challenges, I am delighted with the performance we have delivered and the way our people responded to the challenge.

Delivering strong investment performance

Looking after our clients' investments during the market turmoil was of the utmost importance for us. Our investment culture of research, team work and internal communications continued to function well, even when most of our portfolio managers were working from home. We remained highly proactive and our Data Insights Unit provided innovative research, in particular on the developments of Covid-19, with high levels of engagement from our investment desks.

This meant our teams did not miss a beat and, as a result, we delivered strong investment performance despite the behaviour of markets. Over three and five years, 72% and 81% of client assets have outperformed their respective benchmarks. This is a major achievement and highlights the ability of active managers to successfully generate alpha.

Client investment performance*	1 year	3 years	5 years
2020	75%	72%	81%
2019	70%	70%	72%

* For more information about how we calculate client investment performance see the Glossary on page 189

I am pleased to say that we continued to meet client requests and increased face time with our clients, albeit virtually, throughout the year despite the disruption. Digital engagement was key. Fortunately, we have been investing for some time in the infrastructure to service clients digitally and so were able to quickly transition our events platform to be fully online and deliver regular insight to our global audiences. This included the launch of SchrodersTV to provide regular market views and a vast increase in webinars, allowing clients to speak directly to our portfolio managers. As a result, we were ranked first for digital engagement in 2020 across the asset management industry by Living Group.

Our new business flows remained strong

Overall, total net inflows reached £42.5 billion for the year, or £14.3 billion excluding the remaining tranches from the Scottish Widows mandate, the first tranches of which were transitioned to Schroders during 2019. Our joint ventures and associates contributed £12.4 billion of net inflows, bringing the total for the year of net flows from which we benefitted to £54.9 billion. This was a very pleasing result for our business, especially when considering the backdrop of the year.

Our assets under management reached a record level of £574.4 billion, £663.0 billion including joint ventures and associates. The growth of our assets was supported by two acquisitions, positive investment performance and strong net inflows.

Sustainability, ESG and impact investing continue to be on the minds of many of our stakeholders and I am particularly proud of the progress we have made in becoming a leader in this space. We are now rated amongst the very best ESG investment firms by MSCI and Sustainalytics. This is not a new avenue for us, as we have had sustainable investment expertise for more than 20 years. At the end of 2019, we had integrated ESG into the financial analysis of just over 50% of our assets and targeted full ESG integration¹ by the end of 2020. I am pleased that we were able to achieve this target despite the challenges of the year. ESG integration provides a broader assessment of the world in which our investee companies operate, identifying ESG risks as well as fundamental value

1. For more information see the Glossary on pages 189-192

“We invest in the best interests of our clients to accelerate positive change in the world.”

opportunities in order to deliver returns for our clients. Our tools are state of the art and having identified the trend early, we have been able to capitalise on client demand. Our innovative work through our Data Insights Unit is delivering both investment performance and real differentiation and our newly launched products are gaining good traction.

Since January 2019, we have been operating the business on a carbon neutral basis, which was an important first step. But climate change is one of the most pressing issues the world is facing and in December 2020 we became a founding member of the Net Zero Asset Managers initiative. The group comprises leading asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, as our industry plays a crucial part in helping efforts to limit global warming to 1.5°C. It is through understanding how companies are positioned to respond to this climate transition that we can meet our clients' investment objectives. To that effect, we committed to reducing our emissions in line with a science-based target not only for our business but also for the investments we manage on behalf of our clients. I am optimistic about the role finance can play to address the issues we are currently faced with.

2020 was the ultimate test of operational resilience

One of our major achievements was the transition of the remaining tranches of Scottish Widows' assets. This was a landmark mandate secured from Lloyds Banking Group (LBG). We on-boarded an additional £29.5 billion with the remaining tranches transitioned mostly remotely without a hitch and on time. I felt that was an incredible show of resilience. Separately, we also successfully completed the transition of our transfer agency business to a new provider, a major undertaking.

We recognised that our working practices would change over the long term and a company-wide survey showed a desire for greater flexibility. We adopted our flexible working charter in response, setting a new industry standard. Our Global Head of Human Resources put it well at the time: “in the space of a few months, we have made 20 years' progress in attitudes towards flexible working, and we are going to continue with this momentum.”

Our employee engagement survey showed that 98% of our people are proud to be associated with Schroders and the number of people who believe that the firm cares about employees' mental health increased to 96%. This is above the normal results within financial services, by 11% and 23% respectively. Financial services is a people industry, which is why it is crucial for us to create an environment where our talent can flourish. By being an employer of choice we can attract and retain the best people.

I am proud to say that our resilience at Schroders has been a remarkable testament to our people and our business. We took advantage of the opportunity, extending our position as an industry leader whilst acting with real responsibility towards all our stakeholders, whether they be our clients, shareholders, people, suppliers, regulators or wider society.

Responding during a crisis

It was always clear to us that we would not accept money from support schemes, nor would we furlough any staff. We also committed not to make anyone redundant in 2020 due to the impact of Covid-19. As for the companies in which we invest, we encouraged them to carefully think about the actions they took to honour their own social contracts.

We have built a strong and resilient business based on the right foundations. We have sustained our progressive dividend policy and this remains incredibly important to us. It means that we are able to recommend maintaining our final dividend for shareholders at 79 pence per share, representing a payout ratio of 57%.

Our business generated net income before exceptional items of £2,179.2 million and achieved a ratio of total costs to net income of 68% whilst pre-exceptional profits were £702.3 million.

A fundamental measure of our success is the value we create over the long term for all our stakeholders. This value is a direct result of our ability to diversify and further strengthen our business.

£574.4bn **£663.0bn**

Assets under management

Assets under management inc. associates

£42.5bn

Net new business

£54.9bn

Net new business inc. associates

15%

AUM growth year-on-year

16%

AUM growth year-on-year inc. associates

Making strategic progress throughout the year

We continued to execute on our strategy by investing for strong, diversified growth, and continued to pivot into higher growth areas of Wealth Management and Private Assets & Alternatives. I have highlighted a few key achievements here but you can find a comprehensive view of our strategy on pages 16-17.

We also generated strong net inflows over the year, as we continued to grow our Wealth Management, Private Assets & Alternatives and Solutions businesses. These now constitute 54% of our AUM, and 43% of our revenues.

To further build our Wealth Management proposition in the UK, we acquired Sandaire, a London-based multi-family office. This provides us with an exceptional opportunity to grow Cazenove Capital's leading position in the UK's ultra-high-net-worth segment. Our Wealth business contributed strongly this year with net income increasing by 24% from the previous year, reaching £382.7 million. This led to a significant increase in profit before exceptional items of 26% to £110.5 million.

Another key strategic initiative is to broaden our private markets capabilities, which we pursue through a combination of acquisitions and organic expansion. In 2020, we acquired a majority stake in Pamfleet, a Hong Kong-based real estate manager. We will continue to look for opportunities to add private markets expertise in other areas or where we can expand our geographical reach. We also made key hires to build our capabilities organically, in real estate debt for example, and to broaden our dedicated Private Assets sales team.

It was a good year for our private markets fundraising activities, particularly our infrastructure, private equity and real estate teams. I view this part of our business as a key revenue generator in the future and we expect to further expand into the space organically and inorganically.

Another pillar of our strategy is to continue to grow our Asset Management business. There are many avenues of growth left for us to explore. These include geographical expansions and new product launches, including products with a focus on environmental, social and governance factors.

We now have a comprehensive range of sustainable funds, offering compelling long-term investment propositions and strong performance. We increased the number of funds within our Global Transformation Range of thematic strategies. Three sustainable strategies, Global Sustainable Growth, Global Climate Change and Global Energy Transition, as well as Global Disruption, all passed key AUM milestones, which should help us gain further traction. We are planning to offer these products in suitable vehicles to more clients around the world.

In 2020, we continued to diversify our business geographically. The US is a key opportunity for us and this year our US business reached an important local milestone and exceeded assets under management of \$100 billion (£73.3 billion at year end), as net flows from US clients reached £11.2 billion. This was supported by our long-standing partnership with Hartford.

We also made progress in China and have been granted permission to obtain a Fund Management Company licence, enabling us to provide solutions not only to onshore institutions but also to retail customers. The Chinese onshore market remains one of the biggest opportunities for us and we are working hard to broaden our footprint organically and through partnerships. There is a clear opportunity for Schroders to bring international investment expertise to the growing onshore asset management market.

A proactive response to Covid-19



Expanding our partnership network globally

Our joint venture with Lloyds Banking Group was impacted by the lockdown, as referrals slowed due to branch closures. This year was foundational for Schroders Personal Wealth, as a new leadership team was established and organisational improvements were implemented. Over the year, the migration of all of Schroders Personal Wealth clients onto Benchmark Capital's digital platform was completed, entirely remotely. The future plans for the business give me great confidence.

Our existing partnerships with Bank of Communications in China, Axis in India and Nippon Life in Japan all performed well and contributed positively. Axis continues to grow its market share over the year reaching 5.7%. BoCom Schroders has improved its market position and is now ranked within the top 15 in China by assets under management. This is due to its strong brand, competitive investment performance and successful product launches.

I am especially pleased that our strong partnership with Bank of Communications meant that we were their preferred partner to form a Wealth Management Company joint venture. Once we commence business activities, I foresee significant growth potential by partnering with one of China's largest banks, a partner we have worked with for many years.

If there is one thing we can learn from the pandemic, it is the role financial services can play. Although these are incredibly difficult times, they serve as an important reminder that what we do as a company can make a big difference to many people. Last year, I noted that we were increasingly seeing that clients were no longer interested solely in the returns generated by their investments but also in the broader impact of those investments.

Our understanding of the impact of companies on society and on the planet is growing ever stronger. Accurate measurement of impact is critical. Our SustainEx™ analysis uses big data and measures the external impacts of a business by qualifying the economic costs and benefits companies create for society. For example, we estimate the social impact of activities like carbon emissions or access to basic services and attribute those impacts to companies systematically and quantitatively.

We must be prepared to turn this scrutiny on ourselves. So, for the record, Schroders' own SustainEx™ score is +3.1%, or expressed a different way, we create £3.10 of additional social value for every £100

of sales. The average financial services business has a SustainEx™ score of -0.3%. (For more details on SustainEx™, please see the Glossary on pages 189-192.)

If one accepts that not all profits are created equal, active asset managers have an important role to play when allocating capital. This will be particularly true in credit markets, where new capital is being made available.

I have a strong belief in the powerful role the financial system can play in addressing some of the perceived shortcomings of capitalism. Investment managers play a pivotal role, between asset owners, our clients, and asset creators, the companies and entrepreneurs we invest in. Given the unprecedented amount of government capital invested in financial markets we should expect to see increased intervention. There is a suite of new legislation and regulation being implemented on ESG factors.

Our impact comes from the careful management of more than half a trillion pounds of our clients' assets. How we approach this will prove far more influential than how we behave as a corporate entity, although the two must be aligned. There is an urgency now to get this right because of the compounding effect of early action. The benefit of acting now is so much stronger and the downside of not acting is so much greater.

Many more companies and investors are waking up to this reality; the Covid-19 crisis has been a catalyst. Schroders remains committed to being a leader and we will continue to invest actively in the best interests of our clients, into businesses that are well-positioned to maximise returns and accelerate positive change in the world.

A tribute to our people

I would like to conclude by paying tribute to our people who have gone above and beyond and kept our organisation going without missing a beat, delivering under extremely difficult circumstances. I also could not be more proud that our people supported and fundraised towards our #CollectiveAction campaign, donating £4.3 million to Covid-19 related charities. Keeping our people safe and looking after their wellbeing continues to be paramount and I am grateful to each and every one for their continued dedication.

Peter Harrison

Group Chief Executive

3 March 2021

June



For society

Participated in the Diversity Project's 'Talk About Black' campaign and joined other businesses in making a diversity pledge

August



For our people

Launched our flexible working charter for all employees globally, offering them the opportunity to work in the way most effective for them

November



For clients

BlueOrchard launched a Covid-19 support fund, with funding from Schroders among others, to support the microfinance market through the pandemic

December



For society

Became a founding member of the Net Zero Asset Manager initiative

For clients

Launched the British Opportunities Trust, investing in British businesses through the pandemic and beyond

Launched the Schroder BSC Social Impact Trust, which invests with a focus on delivering a positive social impact in the UK