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.

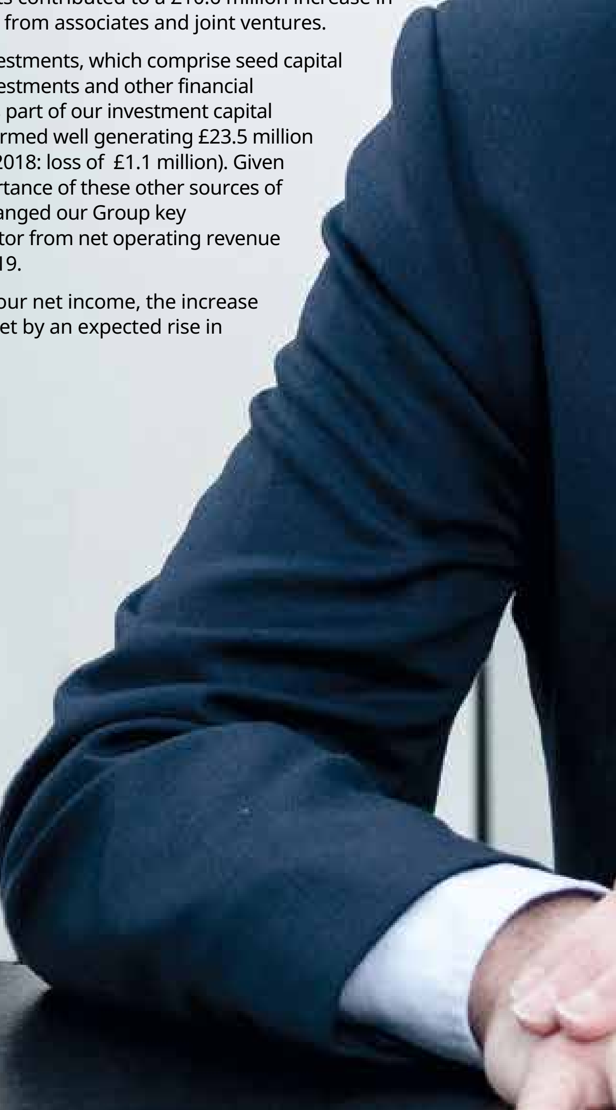
Income from our Private Assets & Alternatives business has increased by 112% in the past five years to £300.2 million in 2019. Private Assets & Alternatives products are less exposed to the pricing pressures impacting the traditional asset management industry and have greater longevity than most other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

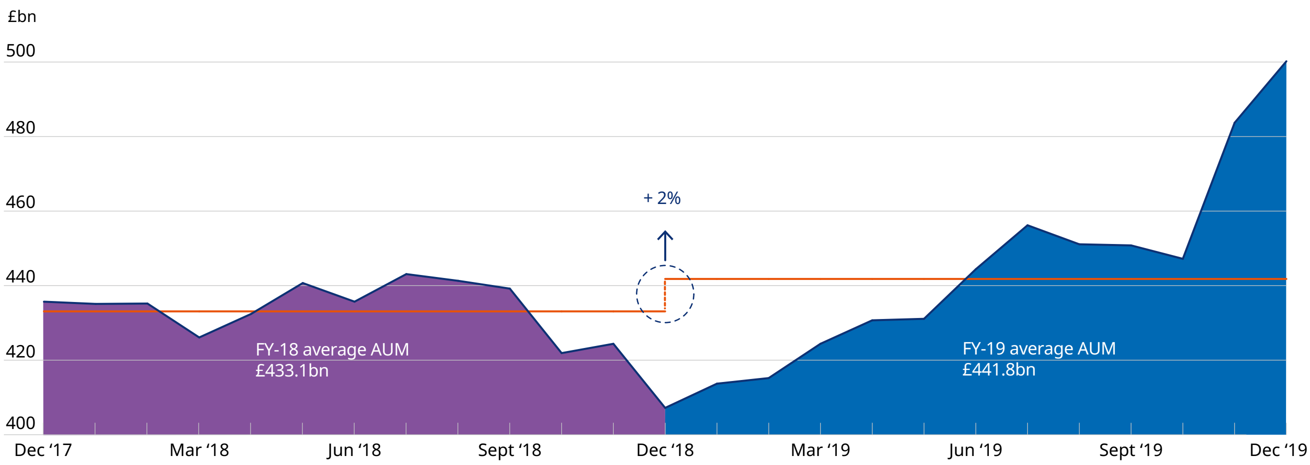
- net new business from clients;
- assets acquired or disposed of through corporate activity; and
- investment returns, including currency movements.

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.



£bn	AUM Private Assets & Alternatives	Solutions	Mutual Funds	Institutional	Asset Management	Wealth Management	Total
1 January 2019	**38.0**	**95.9**	**95.1**	**134.5**	**363.5**	**43.7**	**407.2**
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)
Net flows	**2.8**	**34.5**	**(1.5)**	**(7.1)**	**28.7**	**14.7**	**43.4**
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	–
31 December 2019	**44.2**	**142.8**	**102.4**	**144.1**	**433.5**	**66.7**	**500.2**
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
Total Asset Management	**12.4**	**421.1**	**433.5**
Wealth Management	**3.0**	**63.7**	**66.7**
Total AUM	**15.4**	**484.8**	**500.2**
Investment capital	0.6		
Seed and co-investment capital	0.6		
Other assets	4.7		
Total Group assets excluding clients' investments	**5.9**		
Total Group assets	**21.3**		

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