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.

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 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.

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

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.

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.

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

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)