

# Financial statements contents

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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							Total £m	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				
<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							Total £m	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				
<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	Continental	Asia Pacific	Americas	Segmental	Adjustments	Group
	£m	Europe & Middle East £m	£m	£m	total £m	£m	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	Continental	Asia Pacific	Americas	Total
	£m	Europe & Middle East £m	£m	£m	£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:

<u>Year ended 31 December</u>	<b>2019 Number Millions</b>	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.

	<u>2020</u>		<u>2019</u>		<u>2018</u>	
	£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				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £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	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>
<b>Group's share of profit for the year before amortisation</b>	<b>0.4</b>	<b>4.3</b>	<b>20.0</b>	<b>2.8</b>	<b>1.1</b>	<b>0.4</b>	<b>29.0</b>	<b>4.2</b>	<b>16.3</b>	<b>0.5</b>	<b>(1.1)</b>	<b>0.0</b>	<b>19.9</b>
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>
<b>2018</b>							
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<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](http://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			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £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			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £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>
<b>Satisfied by:</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Total £m</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>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>(19.8)</b>	<b>(19.8)</b>
<b>Total comprehensive income for the year</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>(71.9)</b>	<b>(258.1)</b>	<b>(330.0)</b>
<b>Transfers</b>		-	-	<b>66.1</b>	<b>(66.1)</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>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>(9.5)</b>	<b>(9.5)</b>
<b>Total comprehensive income for the year</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>(66.7)</b>	<b>(252.1)</b>	<b>(318.8)</b>
<b>Transfers</b>		-	-	<b>70.6</b>	<b>(70.6)</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, Uglund 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, Uglund 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>  <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.

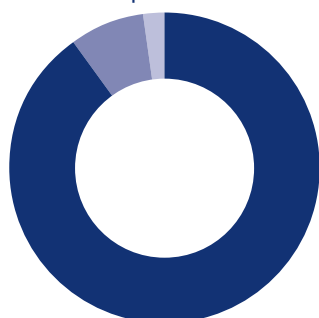
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 24 legal entities within the following countries: United Kingdom, Guernsey, Switzerland, Luxembourg, Singapore, 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.

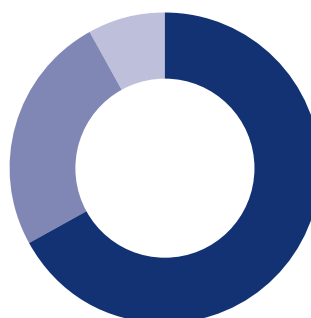
The charts below illustrate the coverage obtained from the work performed by our audit teams.

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