Schroders

# Annual Report and Accounts 2019

## Leadenhall Securities Corporation Limited

### Year Ended 31 December 2019

**Registered Number: 00302840**

# Contents

# Officers and professional advisers

### Directors

James Grant
Tim McCann
Graham Staples
Nicholas Taylor

### Company Secretary

Schroder Corporate Services Limited

### Registered Office

1 London Wall Place
London
EC2Y 5AU

### Independent Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

# Strategic report

The Directors present their Strategic report on Leadenhall Securities Corporation Limited (the 'Company') for the year ended 31 December 2019.

## Results and Review of the business

The profit for the year, after tax, was £8,381,000 (2018 : £26,018,000 loss after tax).

The Company's investment business continued during the year. The financial assets of the Company decreased by £24,812,000 (2018 : decrease of £184,337,000) to £810,062,000 (2018 : £834,874,000).

The Company's investment and operating principles are expected to remain unchanged in 2020.

The Directors consider the results and the Company's financial position at 31 December 2019 to be satisfactory.

The United Kingdom left the European Union on 31 January 2020 under the terms of the European Union (Withdrawal Agreement) Act 2020 beginning a period of transition to 31 December 2020. During the transition period EU law and the rulings of the European Court of Justice will continue to apply within and to the UK. Negotiations on the future relationship between the UK and EU will continue but uncertainty remains as to what will be agreed before the end of the year. The Schroders plc Group (the 'Group') remains well positioned to manage the challenges that may arise as a result of Brexit, regardless of the outcome of the negotiations. Whilst all the legal and regulatory challenges of Brexit are not yet clear, our structure provides us with flexibility in deciding how best to respond and continue to service our clients. We believe that the Company is well placed to weather these challenges and to adapt to ongoing changes in the political, economic and regulatory environment.

## Directors' duties – compliance with s172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

• likely consequences of any decisions in the long-term;

• need to foster the Company's business relationships with suppliers, customers and others;

• impact of the Company's operations on the community and environment;

• desirability of the Company maintaining a reputation for high standards of business conduct, and

• need to act fairly as between members of the Company.

To discharge their section 172 duties the directors had regard to the factors set out above in making the principal decisions taken by the Company.

The Board's principal decision during the year was to approve the payment of an interim dividend by the Company to its parent. The directors considered the long term consequences of paying up its distributable reserves and considered that it was in the best interests of its stakeholders as a whole.

Due to the structure of the Schroders Group, stakeholder engagement also took place using Group resources, in line with agreed delegations. For details of the engagement that takes place with the Company's stakeholders at Group level, please refer to the Schroders plc annual report and accounts for the year ended 31 December 2019 ('the Schroders Report').

# Strategic report (continued)

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the 'Key risk and mitigations' section of the Strategic report and 'Risk and internal controls' within the Governance section of the Schroders Report. The Schroders Report does not form part of this report.

### Key performance indicators

The Directors of the Group manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, is discussed in the Strategic report in the Schroders Report. The Schroders Report does not form part of this report.

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland, Authorised signatory
For and on behalf of
Schroder Corporate Services Limited
Company Secretary
10 March 2020

# Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019. The information contained in the Strategic report and the Statement of Directors' responsibilities forms part of this Directors' report.

## General information

The Company is a private limited company, limited by shares incorporated and domiciled in England and Wales. The Company's ultimate parent undertaking and controlling entity is Schroders plc, which together with the Company and Schroder plc's other subsidiary undertakings, form the Group.

## Future developments

The future developments of the Company are disclosed within the Strategic report.

## Dividends

During the year the Directors declared interim dividends totalling £16,000,000 in respect of the year ended 31 December 2019 (2018 : Nil) which was paid to the member of the Company on 22 November 2019.

## Risk management and use of financial instruments

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 'Key risk and mitigations' in the Strategic report and 'Risk and internal controls' within the Governance section of the Schroders Report. The Company's specific risk exposures to financial instruments are explained in note 12 to the financial statements. The Schroders Report does not form part of this report.

## Going Concern

Taking all the above factors into consideration, including the nature of the Company and its business, the Directors are satisfied that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which is at least 12 months from the date the Annual Report and Accounts is signed. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

## Directors

The Directors of the Company who have served throughout the year, except where listed below, are set out on page one. Between 1 January 2019 and 9 March 2020 the following changes have taken place:

| Director | Appointed | Resigned |
|---|---|---|
| James Grant | 16 July 2019 | |
| Wayne Mepham | | 16 July 2019 |
| James Stewart | | 15 February 2019 |

## Directors' liability insurance

Directors' and Officers' liability insurance is taken out by Schroders plc, the Company's ultimate parent undertaking for the benefit of the Directors of the Company.

## Employment policy

The Company had no employees during the year.

# Directors' report (continued)

### Independent Auditor and disclosure of information to independent Auditor

In accordance with section 487(2) of the Companies Act 2006 and in the absence of a notice proposing that the appointment be terminated at a general meeting, the current auditor, Ernst & Young LLP ('EY'), are deemed to be reappointed for the next financial year.

To the best of the Directors' knowledge there is no relevant audit information of which EY is unaware. Each of the Directors has taken all reasonable steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information.

### Statement of corporate governance arrangements

As a subsidiary undertaking, the Company applies the UK Corporate Governance Code where applicable to support the overall compliance of Schroders plc with that code.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland, Authorised signatory
For and on behalf of
Schroder Corporate Services Limited
Company Secretary
10 March 2020

Registered Office:
1 London Wall Place
London EC2Y 5AU

Registered in England and Wales No 00302840

# Independent auditor's report to the member of Leadenhall Securities Corporation Limited

## Opinion

We have audited the financial statements of Leadenhall Securities Corporation Limited (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The other information comprises the information included in the Annual Report and Accounts, 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.

## Opinions on other matters prescribed by 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 Directors' report have been prepared in accordance with applicable legal requirements.

# Independent auditor's report to the member of Leadenhall Securities Corporation Limited (contd.)

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 5, 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 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 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### 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
Date:

# Income statement

**for the year ended 31 December 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Net gains / (losses) on financial instruments | 3 | 17,906 | (20,637) |
| Operating expenses | 3 | (2,007) | (3,526) |
| **Operating profit / (loss)** | | **15,899** | **(24,163)** |
| Finance income | 3 | 6,007 | 8,746 |
| Finance charges | 3 | (11,569) | (16,709) |
| Net finance charge | | (5,562) | (7,963) |
| **Profit / (loss) before tax** | | **10,337** | **(32,126)** |
| Tax (charge) / credit | 4 | (1,956) | 6,108 |
| **Profit / (loss) after tax** | | **8,381** | **(26,018)** |

# Statement of comprehensive income

**for the year ended 31 December 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Profit / (loss) for the year** | | **8,381** | **(26,018)** |
| **Items to be reclassified to the income statement on fulfilment of specific conditions:** | | | |
| Net gains / (losses) arising from assets held at fair value through other comprehensive income | | 6,736 | (5,156) |
| Current income tax credit / (charge) on fixed income assets held at fair value through other comprehensive income taken through equity | 4(b) | 1,143 | (1,525) |
| | | 7,879 | (6,681) |
| **Reclassifications to the income statement:** | | | |
| Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income | | (488) | (38) |
| Deferred tax on assets held at fair value through other comprehensive income | 4(b) | (890) | 1,278 |
| | | (1,378) | 1,240 |
| **Other comprehensive income / (losses)** | | **6,501** | **(5,441)** |
| **Total comprehensive income / (losses) for the year net of tax** | | **14,882** | **(31,459)** |

# Statement of financial position

**as at 31 December 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 7,380 | 66,056 |
| Trade and other receivables | 7 | 4,547 | 18,086 |
| Financial assets | 8 | 810,062 | 834,874 |
| Corporation tax | | - | 4,579 |
| Deferred tax | 4(d) | - | 718 |
| **Total assets** | | **821,989** | **924,313** |
| | | | |
| Corporation tax | | 2,112 | - |
| Trade and other payables | 9 | 620,643 | 723,752 |
| Financial liabilities | 10 | 2,173 | 2,554 |
| Deferred tax | 4(d) | 172 | - |
| **Total liabilities** | | **625,100** | **726,306** |
| | | | |
| **Net assets** | | **196,889** | **198,007** |
| | | | |
| **Total Equity** | | **196,889** | **198,007** |

The financial statements on pages 8 to 32 were approved by the Board of Directors on 10 March 2020 and signed on its behalf by:

James Grant
Director

Registered Number: 00302840

# Statement of changes in equity

**for the year ended 31 December 2019**

| | Share[1] capital £'000 | Profit and[2] loss reserve £'000 | Total equity £'000 |
|---|---|---|---|
| At 1 January 2019 | 5,000 | 193,007 | 198,007 |
| Profit for the year | - | 8,381 | 8,381 |
| Net gains on financial assets held at fair value through other comprehensive income | - | 6,736 | 6,736 |
| Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income | - | (488) | (488) |
| Tax credit on asset fair value movements taken through equity | - | 253 | 253 |
| **Total comprehensive income for the year, net of tax** | **-** | **14,882** | **14,882** |
| Dividends paid | - | (16,000) | (16,000) |
| **Transactions with shareholders** | **-** | **(16,000)** | **(16,000)** |
| **At 31 December 2019** | **5,000** | **191,889** | **196,889** |

| | Share[1] capital £'000 | Profit and[2] loss reserve £'000 | Total equity £'000 |
|---|---|---|---|
| At 1 January 2018 | 5,000 | 224,472 | 229,472 |
| Restatement on adoption of IFRS 9 | - | (6) | (6) |
| **At 1 January 2018 (restated)** | **5,000** | **224,466** | **229,466** |
| Loss for the year | - | (26,018) | (26,018) |
| Net losses on financial assets held at fair value through other comprehensive income | - | (5,156) | (5,156) |
| Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income | - | (38) | (38) |
| Tax charge on asset fair value movements taken through equity | - | (247) | (247) |
| **Total comprehensive income for the year, net of tax** | **-** | **(31,459)** | **(31,459)** |
| **At 31 December 2018** | **5,000** | **193,007** | **198,007** |

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 13 to the financial statements.

[2] The profit and loss reserve represents the profit or loss for the year together with certain other amounts recognised directly in other comprehensive income and transactions with shareholders as well as the difference between the cost (or, if an asset has been reclassified, the fair value at date of reclassification) and the fair value of unimpaired financial assets classified as fair value through other comprehensive income. The presentation of reserves has changed following the implementation of IFRS 9.

# Cash flow statement

**for the year ended 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit / (loss) | | 15,899 | (24,163) |
| Decrease / (increase) in trade and other receivables | | 11,334 | (11,921) |
| Decrease in trade and other payables | | (102,250) | (92,633) |
| Purchase of financial instruments | | (321,743) | (233,860) |
| Proceeds from sale of financial instruments | | 366,271 | 409,043 |
| Net gains on financial assets and financial liabilities | | (22,015) | (4,375) |
| Adjustment for expected credit loss | | - | (6) |
| Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income | | 488 | 38 |
| Cash (used in) / generated from operating activities | | (52,016) | 42,123 |
| Amounts received / (paid) in respect of group tax relief | | 5,878 | (2,093) |
| Interest received | | 15,890 | 19,604 |
| **Net cash (used in) / generated from operating activities** | | **(30,248)** | **59,634** |
| **Financing activities** | | | |
| Dividend paid | | (16,000) | - |
| Interest paid | | (12,428) | (16,698) |
| **Net cash used in financing activities** | | **(28,428)** | **(16,698)** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(58,676)** | **42,936** |
| Opening cash and cash equivalents | | 66,056 | 23,120 |
| Net (decrease) / increase in cash and cash equivalents | | (58,676) | 42,936 |
| **Closing cash and cash equivalents** | 6 | **7,380** | **66,056** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 1. Presentation of financial statements

Financial information for the year ended 31 December 2019 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

### Basis of preparation

The financial statements are prepared in accordance with IFRS, which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The 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 financial liabilities that are held at fair value through profit or loss or financial assets that are held at fair value through other comprehensive income.

The Company is a wholly-owned subsidiary of Schroder Investment Company Limited (incorporated in England and Wales) and is included in the consolidated financial statement of Schroders plc (incorporated in England and Wales) which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company's principal accounting policies have been consistently applied. The preparation of 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 Company's accounting policies. 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 below.

The Company did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year-end date.

The Company has applied IFRIC 23 Uncertainty over Income Tax Treatments ('IFRIC 23') from 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 Company's financial statements.

No other Standards or Interpretations issued, and not yet effective, are expected to have an impact on the Company's financial statements.

## 2. 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 Company's accounting policies. 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 will seldom equal the related actual results. The estimates and judgements that have a significant effect on the carrying amounts of assets and liabilities are set out in note 8, 'Financial assets', and note 12, 'Financial instrument risk management'.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 3. Revenues and expenses

### Net gains / (losses) on financial instruments

A portion of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through profit or loss. Net gains and losses on financial instruments at fair value through profit or loss principally comprise market returns on investments in debt securities, pooled investment vehicles and gains and losses on derivatives (which mainly arise from hedging activities). Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised within 'net gains / (losses) on financial instruments and other income' in the income statement.

The remainder of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through other comprehensive income. Unrealised gains and losses on debt securities classified as financial assets at fair value through other comprehensive income are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is sold or otherwise realised.

Impairment of financial assets is included in the income statement.

### Foreign currency translation

Foreign currency financial assets and liabilities are translated at the rates of exchange ruling at the year end date and any exchange differences arising are taken to the income statement. Exchange differences are taken as they arise on the translation of assets and liabilities whose changes in value are taken directly through other comprehensive income.

### Operating expenses

Operating expenses are recognised on an accruals basis as services are provided.

### Net finance charge

Net finance charge comprises amounts due on the Company's investment capital and temporary surpluses or deficits in the Company's cash accounts held with banks or loans to or from related parties. Interest receivable and payable is recognised using the effective interest method and is recorded in the income statement within 'Net finance charge'.

### Dividends

Dividends are recognised when the Company's right to receive payment is established.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 3. Revenues and expenses (continued)

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Included in net gains / (losses) on financial instruments:** | | |
| Net (losses) / gains on foreign exchange[1] | (214) | 445 |
| Net gains on disposal of financial assets held at fair value through other comprehensive income | 488 | 38 |
| Net gains / (losses) on financial assets and liabilities held at fair value through profit or loss | 17,632 | (21,120) |
| | **17,906** | **(20,637)** |

[1] Excludes foreign exchange on forward foreign exchange contracts. Such gains and losses are included in net gains on financial assets and liabilities held at fair value through profit or loss.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Included in operating expenses:** | | |
| Audit fees payable for the audit of the Company | 49 | 49 |
| | **49** | **49** |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Included in finance income:** | | |
| Bank interest receivable | 121 | 61 |
| Interest receivable on financial assets held at fair value through other comprehensive income | 5,870 | 8,674 |
| Interest receivable on balances due from Group Companies (see note 14) | 16 | 11 |
| **Finance income** | **6,007** | **8,746** |

| | | |
|---|---|---|
| **Included in finance charges:** | | |
| Interest payable on financial liabilities not at fair value through profit or loss | (11,569) | (16,709) |
| **Finance charges** | **(11,569)** | **(16,709)** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 3. Revenues and expenses (continued)

### Directors' emoluments

The amounts set out below are in respect of 1 (2018 : 1) Director whose emoluments were charged either in part or in full to the Company during the year. These Directors have contracts of service with and receive their emoluments from another Group company. A charge is made by that Group Company in respect of the services it provides to the Company. The emoluments of 5 (2018 : 4) Directors employed by and paid for by another Group company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to their services to these companies. These Directors therefore receive no incremental emoluments for their services to the Company.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Aggregate emoluments** | **1** | **1** |

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors was £68 (2018 : £100).

Retirement benefits have accrued to no (2018 : none) Directors under a defined benefit scheme and to no (2018 : none) Directors under a defined contribution pension scheme.

During the year, 1 (2018 : 1) Director became entitled to shares under the Group's Equity Compensation Plan and no (2018 : 1) Director became entitled to shares under the Group's Equity Incentive Plan.

### Key management personnel remuneration

The Company has determined that the Board of Directors of the Company are the key management personnel of the Company.

The remuneration of key management personnel during the year was as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Short-term individual benefits** | **2** | **2** |

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £35,000 (2018 : £31,000) and net interest and fee income of £8,000 (2018 : £7,000).

# Notes to the financial statements

**for the year ended 31 December 2019**

## 4. Tax charge / (credit)

The Company pays taxes according to the rates applicable in the countries in which it operates. Most taxes are recorded in the income statement and relate to taxes payable for the reporting period (current tax).

### (a) Analysis of tax charge / (credit) reported in the income statement

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current tax:** | | |
| Current tax charge / (credit) | 1,964 | (6,104) |
| Adjustments in respect of prior years | (8) | (4) |
| **Total tax charge / (credit) for the year** | **1,956** | **(6,108)** |

### (b) Analysis of tax (credit) / charge reported in other comprehensive income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current income tax movements on assets held at fair value through other comprehensive income | (1,143) | 1,525 |
| Deferred tax on movement on assets held at fair value through other comprehensive income | 890 | (1,278) |
| **Tax (credit) / charge in statement of other comprehensive income** | **(253)** | **247** |

### (c) Factors affecting the tax charge / (credit) for the year

The UK standard rate of corporation tax for the year in 19% (2018: 19%).

The tax charge for the year is lower (2018 : tax credit higher) than the UK standard rate of corporation tax for the period of 19%.

The differences are explained below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Profit / (loss) before tax** | **10,337** | **(32,126)** |
| Profit before tax multiplied by corporation tax at the UK standard rate of 19% (2018: 19%) | 1,964 | (6,104) |
| **Effects of:** | | |
| Adjustments in respect of prior years | (8) | (4) |
| **Total tax charge / (credit) for the year** | **1,956** | **(6,108)** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 4. Tax charge / (credit) (continued)

### (d) Deferred tax

The movement on the deferred tax asset / liability accounts are as shown below:

**Deferred tax assets**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **At 1 January** | **718** | **-** |
| (Charge) / credit to statement of other comprehensive income | (890) | 1,278 |
| Transfer to / (from) deferred tax liabilities | 172 | (560) |
| **At 31 December** | **-** | **718** |

**Deferred tax liabilties**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **At 1 January** | - | (560) |
| Transfer (from) / to deferred tax assets | (172) | 560 |
| **At 31 December** | **(172)** | **-** |

## 5. Dividends

Dividends on ordinary shares payable are recognised when the dividend is paid or approved by the Board of Directors.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £'000 | Pence per share | £'000 | Pence per share |
| **Interim dividend paid** | **16,000** | **320.0** | - | **-** |

## 6. Cash and cash equivalents

Cash and cash equivalents comprise of margin accounts and bank accounts with an original maturity of three months or less. Where the Company considers that such items are not to be used for settling its liabilities, for example, securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Cash at bank** | **7,380** | **66,056** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 7. Trade and other receivables

Trade receivables are recorded initially at fair value and subsequently at amortised cost.

Trade and other receivables are all current. The carrying amount of interest and non-interest bearing trade and other receivables at amortised cost which approximates their fair value.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Amounts due from related parties (see note 14) | 3 | 11,836 |
| Settlement assets | 371 | - |
| Amounts due from external parties | 260 | 6 |
| Accrued income | 3,913 | 6,244 |
| | **4,547** | **18,086** |

Amounts due from related parties include £nil (2018 : £nil) of interest bearing deposits.

Gross carrying value for trade and other receivables is £4,550,000 (2018 : £18,091,000) and expected credit losses are £3,000 (2018 : £5,000). Note 12 sets out the basis of the expected credit loss calculation.

## 8. Financial assets

Items included within this caption on the face of the statement of financial position principally comprise investments in equities, derivatives and debt securities. It excludes financial assets and liabilities that are recorded under the following headings:

- Trade and other receivables;
- Cash and cash equivalents; and
- Trade and other payables.

Separate accounting policies are presented in respect of these excluded items.

### Classification and measurement

The Company initially records all financial assets at fair value. The Company holds each financial asset at either 'fair value through profit or loss' ('FVTPL') or 'fair value through other comprehensive income' ('FVOCI'). Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing market participants.

*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 the Company's debt securities.

*Financial assets at fair value through profit or loss*

All other financial assets are held at FVTPL. The Company's financial assets at FVTPL principally comprise of investments in pooled investment vehicles, derivatives and debt securities.

All purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Derivative contracts are included at fair value at the year-end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the year-end date between willing parties.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 8. Financial assets (continued)

| | 2019 | | |
|---|---|---|---|
| | Fair value through other comprehensive income £'000 | Fair value through profit or loss £'000 | Total £'000 |
| Derivative contracts (see note 11) | - | 21,326 | 21,326 |
| Debt securities - listed | 304,274 | - | 304,274 |
| Debt securities - unlisted | 10,721 | 22,034 | 32,755 |
| Pooled investment vehicles | - | 451,707 | 451,707 |
| | **314,995** | **495,067** | **810,062** |

| | 2018 | | |
|---|---|---|---|
| | Fair value through other comprehensive income £'000 | Fair value through profit or loss £'000 | Total £'000 |
| Derivative contracts (see note 11) | - | 4,321 | 4,321 |
| Debt securities - listed | 394,369 | - | 394,369 |
| Debt securities - unlisted | 43,435 | - | 43,435 |
| Pooled investment vehicles | - | 392,749 | 392,749 |
| | **437,804** | **397,070** | **834,874** |

Gross carrying value for debt securities held at fair value through other comprehensive income is £314,995,000 (31 December 2018: £437,804,000). The expected credit losses are £401,000 (31 December 2018: £569,000) which are booked in other comprehensive income. Note 12 sets out the details of the expected credit loss calculation.

### Estimates and Judgements - Fair Value Measurements

The Company holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments may require some estimation or may be derived from readily available sources. The degree of judgement involved is reflected in the fair value measurements section below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These 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 comprises investments in pooled investment vehicles 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 included within Level 1 for the asset or liability and principally comprise debt securities and foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on a compilation of primarily observable market information or industry standard calculations, utilising vendor fed data and information readily available via external sources; and

# Notes to the financial statements

**for the year ended 31 December 2019**

## 8. Financial assets (continued)

- 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 and principally comprise investments in hedge funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers.

| | 2019 | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| **Financial assets:** | | | | |
| Debt securities | - | 337,029 | - | 337,029 |
| Pooled investment vehicles | 451,695 | - | 12 | 451,707 |
| Derivative contracts | 165 | 21,161 | - | 21,326 |
| | **451,860** | **358,190** | **12** | **810,062** |

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| **Financial assets:** | | | | |
| Debt securities | - | 437,804 | - | 437,804 |
| Pooled investment vehicles | 392,736 | - | 13 | 392,749 |
| Derivative contracts | 2,796 | 1,525 | - | 4,321 |
| | **395,532** | **439,329** | **13** | **834,874** |

No financial assets were transferred between levels during 2019 or 2018.

Movements in financial assets and liabilities categorised as level 3 during the year are:

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| At 1 January | 13 | 27 |
| Disposals | (1) | (13) |
| Net gains or losses recognised in the income statement | - | (1) |
| **At 31 December** | **12** | **13** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 8. Financial assets (continued)

### 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 will seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of financial assets are discussed below.

*Valuation of financial assets where there is no quoted price*

Such assets principally consist of investments in private equity and promissory notes. The determination of fair value requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation by the fund manager or advisor where this is performed before year end. In making this judgement the Company evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

### Interests in unconsolidated structured entities

The Company holds interests in structured entities through its ownership of units in investment funds managed and operated by third parties. These investments entitle the Company to investment returns.

The main risk the Company faces from its interests in unconsolidated structured entities is capital losses arising from a decrease in the value of its investments. The following table summarises the carrying values recognised in the statement of financial position, which also represent the maximum exposure to loss, in respect of the Company's interests in unconsolidated structured entities:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Financial assets | 451,707 | 392,749 |
| Cash equivalents | 3,060 | 3,036 |
| **Total** | **454,767** | **395,785** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 8. Financial assets (continued)

### Information on investments in related undertakings

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings. Related undertakings include where the Company has a significant holding of share class or unit class of a structured entity. 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. Due to the number of share classes or unit classes which can exist in these vehicles a significant holding in a single share or unit class is possible without that undertaking being classified as a subsidiary or associate.

At 31 December 2019 the Company had significant holding in the following investments funds:

| Fund Name | Share / unit class | Holding in undertaking share / unit class | Holding in undertaking via share / unit class |
|---|---|---|---|
| **UK** | | | |
| 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 Fusion Managed Defensive Fund | F Accumulation | 35% | 35% |
| Schroder Fusion Portfolio 3 | F Accumulation | 25% | 25% |
| Schroder India Equity | X Accumulation | 29% | 28% |
| Schroder US Equity Income Maximiser | L Accumulation GBP Hedged | 79% | 0% |
| **Australia** | | | |
| Schroder Absolute Return Income Fund | W Distribution | 93% | 93% |
| **Cayman Islands** | | | |
| Musashi Smart Premia Fund | C | 100% | 1% |
| **Japan** | | | |
| Schroder Global CB Fund PPIT Unhedged | - | 64% | 64% |
| Schroder Global CB PPIT Hedged | - | 53% | 53% |
| Schroder YEN Target (Annual) | - | 34% | 34% |
| **Luxembourg** | | | |
| ICBC (Europe) UCITS SICAV | - | 100% | 100% |
| 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 Argentine Bond Fund | C Accumulation | 95% | 89% |
| Schroder Alternative Solutions Commodity Fund | I Accumulation GBP Hedged | 100% | 0% |
| 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% |
| Schroder GAIA BlueTrend | I Accumulation CHF Hedged | 67% | 1% |
| Schroder GAIA Helix | C Accumulation GBP Hedged | 96% | 0% |
| Schroder GAIA II NGA Turnaround | I Accumulation | 100% | 70% |
| Schroder GAIA II Specialist Private Equity | - | 34% | 34% |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 8. Financial assets (continued)

| Fund Name | Share / unit class | Holding in undertaking share / unit class | Holding in undertaking via share / unit class |
|---|---|---|---|
| **Luxembourg (continued)** | | | |
| 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 Securitised Income | I Accumulation | 100% | 100% |
| Schroder ISF Asian Local Currency Bond | I Accumulation | 100% | 0% |
| Schroder ISF Dynamic Indian Income Bond | I Accumulation | 45% | 45% |
| Schroder ISF Emerging Markets Debt Absolute Return | I Accumulation EUR Hedged | 100% | 0% |
| Schroder ISF European Sustainable Equity | I Accumulation | 24% | 23% |
| Schroder ISF Global Credit Income | I Accumulation | 100% | 0% |
| Schroder ISF Global Credit Income Short Duration | I Accumulation | 100% | 100% |
| Schroder ISF Global Credit Value | I Accumulation | 99% | 99% |
| Schroder ISF Global Disruption | I Accumulation | 61% | 52% |
| 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 Healthcare Innovation | I Accumulation | 100% | 99% |
| Schroder ISF Middle East | I Accumulation | 100% | 0% |
| Schroder ISF Multi-Asset PIR Italia | C Accumulation | 100% | 100% |
| Schroder ISF Multi-Asset Total Return | I Accumulation EUR Hedged | 98% | 0% |
| 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 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% |
| SIF Global Credit Opportunities | I Accumulation | 100% | 100% |

**The registered office for each of the entities listed corresponds to the relevant country.**

**UK**
1 London Wall Place, London, EC2Y 5AU, United Kingdom

**Australia**
Level 20, 123 Pitt Street, Sydney, NSW, 2000, Australia

**Cayman Islands**
Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands

**Japan**
Schroder YEN Target (Annual):
1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan

Schroder Global CB Fund PPIT Unhedged and Schroder Global CB PPIT Hedged:
1-8-3 Marunouchi Chiyoda-Ku, Tokyo, Japan

**Luxembourg**
5 rue Höhenhof, L-1736 Senningerberg, Luxembourg

ICBC (Europe) UCITS SICAV:
80, route d'Esch, L-1470, Luxembourg

# Notes to the financial statements

**for the year ended 31 December 2019**

## 9. Trade and other payables

Trade and other payables are recorded initially at fair value and subsequently at amortised cost.

Trade and other payables are all current. Trade and other payables include interest bearing loans from other Group companies. Interest applied to the loan is in line with current market rates. All other trade and other payables are non interest bearing. The carrying amount of interest and non interest bearing trade and other payables is at amortised cost which approximates their fair value.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Amounts owed to related parties (see note 14) | 620,198 | 723,705 |
| Accruals | 445 | 47 |
| | **620,643** | **723,752** |

Amounts due to related parties include £617,851,000 (2018 : £721,818,000) of interest bearing amounts.

## 10. Financial liabilities

Financial liabilities are held at fair value through profit or loss and held for trading. Gains and losses on derivative contracts are recognised within net gains on financial instruments in the income statement.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Derivative contracts (see note 11) | **2,173** | **2,554** |

### Fair value measurements

The Company holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are based on the degree to which the fair value is observable and are defined in note 8.

| | 2019 | | |
|---|---|---|---|
| | Level 1<br>£'000 | Level 2<br>£'000 | Total<br>£'000 |
| **Financial liabilities:** | | | |
| Derivative contracts | 944 | 1,229 | 2,173 |
| | **944** | **1,229** | **2,173** |

| | 2018 | | |
|---|---|---|---|
| | Level 1<br>£'000 | Level 2<br>£'000 | Total<br>£'000 |
| **Financial liabilities:** | | | |
| Derivative contracts | 500 | 2,054 | 2,554 |
| | **500** | **2,054** | **2,554** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 11. Derivative contracts

Derivative contracts are included at fair value at the year end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the statement of financial position date between willing parties. All contracts held at year end are current.

Where derivatives are held for risk management purposes, the Company monitors the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and 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 addition, within certain segregated portfolios, the Company may use derivative investments for investment return.

In relation to fair value hedges such as forward foreign currency contracts which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Currency forwards represent commitments to sell or purchase foreign and domestic currency. Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Futures contracts are standardised contracts to buy or sell specified items 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.

Total return swap contracts result in an economic exchange of total returns (for example, fixed rate payments for the return of an equity index). No exchange of principal takes place. The Company'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, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties in accordance with its internal policies and procedures.

| | Assets £'000 | Liabilities £'000 |
|---|---|---|
| **2019** | | |
| Equity contracts | 164 | 1,139 |
| Forward foreign exchange contracts | 21,162 | 1,034 |
| | **21,326** | **2,173** |

| | Assets £'000 | Liabilities £'000 |
|---|---|---|
| **2018** | | |
| Equity contracts | 2,796 | 500 |
| Forward foreign exchange contracts | 1,525 | 2,054 |
| | **4,321** | **2,554** |

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market indices or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, 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.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 12. Financial instrument risk management

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 'Risk management and internal control' section within the Governance report and in note 20 in the Schroders Report. 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. Except for the corporate bonds and cash and cash equivalents the Company's counterparties are predominately its related parties. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month. Intercompany and cash balances are monitored regularly and historically default levels have been nil. The Company does not have any receivables that are neither past due nor impaired.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Company's relevant financial assets by credit rating as provided by credit agencies are set out below.

| | Cash and cash equivalents | | Corporate bonds | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | % | % | % | % |
| **Credit rating** | | | | |
| AAA | 41.4% | 4.6% | 2.9% | 2.2% |
| AA+ | - | - | 2.9% | 2.1% |
| AA | 13.0% | 48.4% | 5.7% | 1.9% |
| AA- | 44.9% | 47.0% | 9.6% | 9.7% |
| A+ | 0.7% | - | 8.5% | 6.1% |
| A | - | - | 14.2% | 10.9% |
| A- | - | - | 14.1% | 17.0% |
| BBB+ | - | - | 20.7% | 20.5% |
| BBB | - | - | 14.5% | 20.9% |
| BBB- | - | - | 5.8% | 7.9% |
| BB+ | - | - | 1.1% | 0.8% |
| **At 31 December** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 12. Financial instrument risk management (continued)

Expected credit losses are calculated on all of the Company's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. The gross carrying values are adjusted to reflect these credit losses.
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; or
– 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 have defaulted.
For financial assets in stage 1, twelve month expected credit losses are calculated based on the credit losses that are expected to be incurred over the following twelve-month period. For financial assets in stage 2 and 3, expected credit losses are calculated based on the expected credit losses over the life of the instrument. The Company applies the simplified approach to calculate expected credit losses for trade and other receivables based on lifetime expected credit losses and no assessment is done of the different stages.

The expected credit loss on cash and cash equivalents is immaterial.

### Estimates and judgements – impairment of financial assets

The Company has internal processes designed to assess the credit risk profile of its financial instruments, and to determine the relevant stage for calculating the expected credit losses. These processes include consideration of internal, external, historic and forward-looking information about specific loans and securities as well as market data.

For financial assets held with rated counterparties (such as cash and cash equivalents, loans and advances to banks and debt securities), the Company calculates expected credit losses based on default information published by rating agencies and considers any known factors not yet reflected in this information.

For trade and other receivables, the Company has established a provision matrix that incorporates the Company's historical credit loss experience, counterparty groupings and whether a receivable is overdue or not.

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. For debt securities, a default usually arises when contractual payments are 1 day overdue. A default also occurs when any contractual payments (principal or interest) are 90 days or more overdue.

### 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 Company'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 normal course of business. Outside the normal course of business the Company can request additional funding through intergroup loans to maintain sufficient liquidity. The Company has investment capital which includes investments in fixed income portfolios. Liquidity in these portfolios is monitored by the Company on a regular basis.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 12. Financial instrument risk management (continued)

### Market risk

### (a) Interest rate risk:

Interest rate risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

Interest rate risk is limited. Assets and liabilities attracting interest rates are cash balances and intercompany loans, both of which are at floating rate, therefore outright interest rate risks arise mainly from the decision to allow a mismatch between the cash flows. Corporate bonds have fixed rates, however changes in interest rates will affect the fair value of the bonds, the effect of which has been calculated below.

At 31 December 2019, if Bank of England interest rates had been 75 basis points higher or 50 basis points lower with all other variables held constant, post-tax profits for the year would have been £3,730,000 lower or £2,487,000 higher, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, post-tax losses for the year would have been £5,347,000 higher or £2,674,000 lower, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

At 31 December 2019, if Bank of England interest rates had been 75 basis points higher or 50 basis points lower with all other variables held constant, the fair value of the corporate bonds held by the Company would have decreased by £127,000,000 or increased by £69,000,000.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, the fair value of the corporate bonds held by the Company would have decreased by £158,290,000 or increased by £79,230,000.

The underlying assumption made in the model used to calculate the effect on post-tax profits was that the fair values of assets and liabilities (with the exception of corporate bonds) will not be affected by a change in interest rates.

### (b) 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.

Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency.

The Company is exposed to foreign exchange risk arising from currency exposures mainly to US Dollars, Euros, Australian Dollars and Swiss Francs.

The Company's foreign currency financial assets are hedged effectively.

As at 31 December 2019, if the US Dollar had weakened / strengthened by 10% against the sterling, with all other variables held constant, the Company's profit for the year would decrease / increase by £5,620,000.

As at 31 December 2018, if the US Dollar had weakened 20% / strengthened by 15% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £7,314,000 / decrease by £5,486,000.

As at 31 December 2019, if the Euro had weakened / strengthened by 8% against the sterling, with all other variables held constant, the Company's profit for the year would decrease / increase by £1,218,000.

As at 31 December 2018, if the Euro had weakened 10% / strengthened by 7% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £1,527,000 / decrease by £1,069,000.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 12. Financial instrument risk management (continued)

As at 31 December 2019, if the Australian Dollar had weakened by 12% / strengthened by 10% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £2,228,000 / increase by £1,857,000. The movement as at 31 December 2018 was immaterial.

As at 31 December 2019, if the Swiss Franc had weakened by 8% / strengthened by 12% against the sterling, with all other variables held constant, the Company's profit for the year would decrease by £464,000 / increase by £696,000. The movement as at 31 December 2018 was immaterial.

### (c) Pricing risk:

Pricing risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

At 31 December 2019, if market prices had been 20% higher / lower with all other variables held constant (2018 : same), the effect of post-tax profit would increase / decrease by £56,448,000 (2018 : £41,561,000), principally as a result of fair value gains on the Company's fair value investments.

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits and other components of equity:

- Changes in the FTSE All Share Index correlate to changes in the Company's debt and seed capital funds;
- The Company's investment in corporate bonds and hedge funds have no correlation to the FTSE All Share Index; and
- The market risk on the Company's seed capital which are hedged, are assumed to have no correlation to the FTSE All Share Index.

### Capital management

The Company's capital that is not required for the working capital requirements of the business is invested in the following areas:

- Debt securities; and
- Seed capital.

The investments in the above are primarily to support the business.

## 13. Share capital

| | 2019 Number | 2018 Number | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| **Issued and fully paid:** | | | | |
| Ordinary shares of £1 each | 5,000,000 | 5,000,000 | 5,000 | 5,000 |

# Notes to the financial statements

**for the year ended 31 December 2019**

## 14. Related party transactions

### Loans to and borrowings from related parties

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised.

Transactions between the Company and related parties are disclosed below.

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Dividends paid £'000 | Expenses £'000 | Finance income £'000 | Finance charges £'000 | Amounts owed by related parties £'000 | Amounts owed to related parties £'000 |
| Parent | (16,000) | (11) | - | - | - | (1) |
| Other related companies within the Schroders Group | - | (1,699) | 16 | (11,569) | 3 | (620,197) |
| **Total** | **(16,000)** | **(1,710)** | **16** | **(11,569)** | **3** | **(620,198)** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Dividends paid £'000 | Expenses £'000 | Finance income £'000 | Finance charges £'000 | Amounts owed by related parties £'000 | Amounts owed to related parties £'000 |
| Other related companies within the Schroders Group | - | (3,473) | 11 | (16,709) | 11,836 | (723,705) |
| **Total** | **-** | **(3,473)** | **11** | **(16,709)** | **11,836** | **(723,705)** |

Transactions with Directors are described in note 3. The ultimate and immediate parent company is disclosed in note 15.

At 31 December 2019 the Company held financial assets with a fair value of £156,578,000 (2018 : £85,841,000) that are deemed to be subsidiaries of Schroders plc.

The Company recognised realised gains on the disposal of related parties of £2,547,000 (2018 : gains of £41,000) within 'Net gains / (losses) on financial instruments'.

Transactions with subsidiaries and associates of the Schroder Group were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

# Notes to the financial statements

**for the year ended 31 December 2019**

## 15. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Investment Company Limited (incorporated in England and Wales), whose ultimate parent company and ultimate controlling party is Schroders plc (incorporated in England and Wales).

The results of the Company are consolidated in the Annual Report and Accounts of Schroders plc, copies of which can be obtained at www.schroders.com.