

# Schroders



## **Annual Report and Accounts 2019**

**Schroder Investment Company  
Limited**

**Year Ended 31 December 2019**

**Registered Number: 00647370**

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# Officers and professional advisers

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## Directors

James Grant  
Tim McCann  
Graham Staples  
Nicholas Taylor

## 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

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

## Results and Review of the business

The profit for the year, after tax, was £15,109,000 (2018: £11,165,000 loss after tax).

During the year net assets decreased by £888,000 (2018: decreased of £11,325,000) to £43,150,000 (2018: £44,038,000).

The Company's business is as an investment holding company. The Company holds investments in other Schroders plc Group ('Group') companies, seed capital, debt securities and other investments. 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 based on the Company's capital structure.

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 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.

The Board considered a number of acquisitions and disposals of the Company's investments during the year. In making these decisions, the directors considered the long term impact of the transactions on the Company's operations and the wider Schroders Group.

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)

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### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of 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 risks 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  
Schroder Corporate Services Limited  
Company Secretary  
10 March 2020

## Directors' report

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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 Schroders 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 an interim dividend of £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 14 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 10 March 2020 the following changes took 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 company for the benefit of the Directors of the Company.

### Employment policy

The Company had no employees during the year.

## Directors' report (continued)

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

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 Schrodgers plc with that code.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') 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 these 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 IFRS 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  
Schroder Corporate Services Limited  
Company Secretary  
10 March 2020

Registered Office:  
1 London Wall Place  
London EC2Y 5AU  
Registered in England and Wales No 00647370

# Independent auditor's report to the member of Schroder Investment Company Limited

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## Opinion

We have audited the financial statements of Schroder Investment Company 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 18, 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.

# Independent auditor's report to the member of Schroder Investment Company Limited (continued)

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## 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.

## 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

March 2020

**Schroders**

## Income statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Net gains / (losses) on financial instruments and other income	3	24,017	(5,924)
Operating expenses	3	(728)	(654)
<b>Operating profit / (loss)</b>		<b>23,289</b>	<b>(6,578)</b>
Finance income	3	19	137
Finance charges	3	(9,174)	(8,555)
Net finance charge	3	(9,155)	(8,418)
(Loss) / gain on disposal of subsidiaries		(189)	2,426
<b>Profit / (loss) before tax</b>		<b>13,945</b>	<b>(12,570)</b>
Tax credit	4	1,164	1,405
<b>Profit / (loss) after tax</b>		<b>15,109</b>	<b>(11,165)</b>

## Statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>Profit / (loss) for the year</b>		<b>15,109</b>	<b>(11,165)</b>
<b>Items to be reclassified to the income statement on fulfilment of specific conditions:</b>			
Net gains on financial assets held at fair value through other comprehensive income		-	54
		-	54
<b>Reclassifications to the income statement:</b>			
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income		-	(197)
Current income tax credit / (charge) on fair value assets through other comprehensive income	4(b)	2	(9)
Deferred tax credit on fair value assets through other comprehensive income	4(b)	1	2
<b>Other comprehensive income / (loss) for the year, net of tax</b>		<b>3</b>	<b>(150)</b>
<b>Total comprehensive income / (loss) for the year, net of tax</b>		<b>15,112</b>	<b>(11,315)</b>

## Statement of financial position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>Assets</b>			
Cash and cash equivalents	6	7,048	14,901
Trade and other receivables	7	3,135	956
Financial assets	8	346,224	311,074
Current tax asset		1,505	1,574
Investments in subsidiaries	9	188,532	188,282
<b>Total assets</b>		<b>546,444</b>	<b>516,787</b>
<b>Liabilities</b>			
Trade and other payables	10	501,821	472,131
Financial liabilities	11	955	347
Deferred tax	12	518	271
<b>Total liabilities</b>		<b>503,294</b>	<b>472,749</b>
<b>Net assets</b>		<b>43,150</b>	<b>44,038</b>
<b>Total equity</b>		<b>43,150</b>	<b>44,038</b>

The financial statements on pages 8 to 36 were approved by the Board of Directors on 10 March 2020 and signed on its behalf by:

James Grant  
Director

Registered Number: 00647370

## Statement of changes in equity

for the year ended 31 December 2019

	Share <sup>1</sup> capital £'000	Fair value <sup>2</sup> reserve £'000	Profit and loss reserve <sup>3</sup> £'000	Total £'000
At 1 January 2019	32,000	-	12,038	44,038
Profit for the year	-	-	15,109	15,109
Tax credit on fair value assets taken through statement of other comprehensive income	-	-	3	3
<b>Total comprehensive gains for the year, net of tax</b>	-	-	<b>15,112</b>	<b>15,112</b>
Dividends paid	-	-	(16,000)	(16,000)
<b>Transactions with shareholders</b>	-	-	<b>(16,000)</b>	<b>(16,000)</b>
<b>At 31 December 2019</b>	<b>32,000</b>	-	<b>11,150</b>	<b>43,150</b>

for the year ended 31 December 2018

	Share <sup>1</sup> capital £'000	Fair value <sup>2</sup> reserve £'000	Profit and loss reserve <sup>3</sup> £'000	Total £'000
At 1 January 2018	32,000	(750)	24,113	55,363
Restatement on adoption of IFRS 9	-	900	(910)	(10)
<b>At 1 January 2018 (restated)</b>	<b>32,000</b>	<b>150</b>	<b>23,203</b>	<b>55,353</b>
Loss for the year	-	-	(11,165)	(11,165)
Net gain on financial assets held at fair value through other comprehensive income	-	54	-	54
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income	-	(197)	-	(197)
Tax charge on fixed income portfolio movements taken through statement of other comprehensive income	-	(7)	-	(7)
<b>Total comprehensive losses for the year, net of tax</b>	-	<b>(150)</b>	<b>(11,165)</b>	<b>(11,315)</b>
<b>At 31 December 2018</b>	<b>32,000</b>	-	<b>12,038</b>	<b>44,038</b>

<sup>1</sup>Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 15 to the financial statements.

<sup>2</sup>The fair value reserve represents 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.

<sup>3</sup>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.

## Cash flow statement

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Operating activities</b>			
Operating profit		23,289	(6,578)
Increase in trade and other receivables		(2,179)	(956)
Increase in trade and other payables		30,148	73,220
Purchase of financial assets and financial liabilities		(150,030)	(333,662)
Disposal of financial assets and financial liabilities		127,485	205,775
Net gains on financial assets and financial liabilities		(12,247)	(1,035)
Adjustment for non-cash expenses		-	(10)
Transfers to income statement on disposal and impairment of fair value through other comprehensive income assets		-	197
Cash generated from / (used in) operating activities		16,466	(63,049)
Amounts received in respect of group tax relief		1,567	1,141
Overseas tax		(84)	(25)
<b>Net cash generated from / (used in) operating activities</b>		<b>17,949</b>	<b>(61,933)</b>
<b>Investing activities</b>			
Additions in subsidiaries		(24,506)	-
Proceeds from the disposal of subsidiaries		24,317	5,407
Interest received		19	152
<b>Net cash (used in) / generated from investing activities</b>		<b>(170)</b>	<b>5,559</b>
<b>Financing activities</b>			
Dividend paid		(16,000)	-
Interest paid		(9,632)	(8,350)
<b>Net cash used in financing activities</b>		<b>(25,632)</b>	<b>(8,350)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(7,853)</b>	<b>(64,724)</b>
Opening cash and cash equivalents		14,901	79,625
Net decrease in cash and cash equivalents		(7,853)	(64,724)
<b>Closing cash and cash equivalents</b>	6	<b>7,048</b>	<b>14,901</b>

# 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 International Financial Reporting Standards, as adopted by the European Union ('EU'), which comprise Standards and Interpretations approved by either the International Accounting Standards Board ('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 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 held at fair value through other comprehensive income.

The Company is a wholly-owned subsidiary of Schroder Financial Holdings 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. Further information is provided below and highlighted in the notes to the accounts.

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 has not had 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 differ from 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 note 8, 'Financial assets', note 9, 'Investments in subsidiaries' and in note 14 '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 and other income

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, equities, 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. Net gains and losses on equity instruments that are classified as at fair value through other comprehensive are recorded in other comprehensive income and are not reclassified to profit or loss upon derecognition, but dividends are recognised in the income statement. 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 income and charges

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.

### Carried interest

During the year the Company acquired interests in funds with a right to carried interest. This revenue will be recognised when the Company becomes entitled to the carried interest and it is probable that the income will be received. As at 31 December 2019, the Company had not recognised any carried interest income.

## Notes to the financial statements

for the year ended 31 December 2019

### 3. Revenues and expenses (continued)

	2019 £'000	2018 £'000
<b>Included in net gains / (losses) on financial instruments and other income:</b>		
Net losses on foreign exchange <sup>1</sup>	(661)	(148)
Net gains on financial assets held as fair value through other comprehensive income transferred to income statement on disposal and impairment	-	197
Net gains / (losses) on financial assets and liabilities held at fair value through profit or loss	8,088	(5,973)
Dividends received from Subsidiaries	16,580	-
Other income	10	-
	<b>24,017</b>	<b>(5,924)</b>

<sup>1</sup> Excludes foreign exchange on forward foreign exchange contracts. Such gains and losses are included in net gains / (losses) on financial assets and liabilities held at fair value through profit or loss.

	2019 £'000	2018 £'000
<b>Included in operating expenses:</b>		
Fees payable for the audit of the Company	35	36
	<b>35</b>	<b>36</b>

	2019 £'000	2018 £'000
<b>Net finance income and charges:</b>		
Interest receivable on financial assets not at fair value through profit or loss	19	137
Interest payable on financial liabilities not at fair value through profit or loss	(9,174)	(8,555)
	<b>(9,155)</b>	<b>(8,418)</b>

## Notes to the financial statements

for the year ended 31 December 2019

### 3. Revenues and expenses (continued)

#### Directors' emoluments

The emoluments 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. This Director has a contract 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 £'000	2018 £'000
Aggregate emoluments	3	3
	<b>3</b>	<b>3</b>

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors were £138 (2018: £210).

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) Directors 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 £'000	2018 £'000
Short-term employee benefits	3	3
Share-based payments	1	1
	<b>4</b>	<b>4</b>

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 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 credit in year

	2019 £'000	2018 £'000
<b>Current tax:</b>		
Current tax	(1,508)	(1,581)
Overseas tax	84	25
Adjustments in respect of prior years	12	(3)
<b>Current tax credit for the year</b>	<b>(1,412)</b>	<b>(1,559)</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	213	154
Adjustments in respect of prior years	35	-
<b>Total tax credit for the year</b>	<b>(1,164)</b>	<b>(1,405)</b>

#### (b) Analysis of tax (credit) / charge taken to statement of other comprehensive income

	2019 £'000	2018 £'000
Current income tax (credit) / charge on movements on assets held at fair value through other comprehensive income	(2)	9
Deferred tax credit on movements on assets held at fair value through other comprehensive income	(1)	(2)
<b>Tax (credit) / charge in statement of other comprehensive income</b>	<b>(3)</b>	<b>7</b>

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

The UK standard rate of corporation tax for 2019 is 19% (2018: 19%).

The tax credit for the year is lower (2018: lower) than the UK standard rate of corporation tax for the year of 19%. The differences are explained below:

	2019 £'000	2018 £'000
<b>Profit / (loss) before tax</b>	<b>13,945</b>	<b>(12,570)</b>
Profit / (loss) before tax multiplied by corporation tax at the UK standard rate of 19% (2018: 19%)	2,650	(2,388)
<b>Effects of:</b>		
Non-taxable dividend income	(3,298)	(249)
Non-taxable income net of non deductible expenses	(14)	(341)
Movement in unrecognised deferred tax	(633)	1,551
Overseas tax	84	25
Adjustments in respect of prior years	47	(3)
<b>Total income tax credit for the year</b>	<b>(1,164)</b>	<b>(1,405)</b>

## Notes to the financial statements

for the year ended 31 December 2019

### 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
<b>Interim dividend paid</b>	<b>16,000</b>	<b>50</b>	<b>-</b>	<b>-</b>

### 6. Cash and cash equivalents

Cash and cash equivalents comprise 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	2018
	£'000	£'000
<b>Cash at bank</b>	<b>7,048</b>	<b>14,901</b>

### 7. Trade and other receivables

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

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

	2019	2018
	£'000	£'000
<b>Current:</b>		
Amounts owed by related parties (see note 17)	2,126	12
Other receivables	74	-
<b>Non-current:</b>		
Other receivable - Balance due from external party in relation to the sale of Vicarello Societa Agricola a Responsabilita Limitata	935	944
	<b>3,135</b>	<b>956</b>

# Notes to the financial statements

for the year ended 31 December 2019

## 8. Financial assets

Items included within this caption on the face of the statement of financial position principally comprise investments in pooled investment vehicles, 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;
- Trade and other payables; and
- Investments in subsidiaries.

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 either at ('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 applied 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 investments in pooled investment vehicles, equities, 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)

	Fair value through profit or loss	
	2019 £'000	2018 £'000
<b>Non-current financial assets:</b>		
Equity shares - unlisted	14,850	9,984
<b>Current financial assets:</b>		
Derivative contracts (see note 13)	6,118	2,248
Pooled investment vehicles	313,378	287,447
Equity shares - listed	11,878	11,395
	<b>346,224</b>	<b>311,074</b>

#### 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 estimation involved is reflected below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Financial assets that have no quoted price principally consist of investments in private equity funds and derivatives. The determination of fair value for these instruments requires significant estimation, particularly in determining whether changes in fair value have occurred since the last formal valuation.

# Notes to the financial statements

for the year ended 31 December 2019

## 8. Financial assets (continued)

### Fair value measurements (continued)

The Company's financial instruments have 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 principally comprises investments in equities, 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. The Company's level 2 financial instruments principally comprise foreign exchange contracts and certain debt securities. 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; 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 and principally comprise investments in private equity. These are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Guidelines 2018.

The Company's financial instruments held at fair value at the year end are analysed as follows:

	2019			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets:</b>				
Private equity including co-investments	-	-	14,850	14,850
Pooled investment vehicles	313,378	-	-	313,378
Equities	11,878	-	-	11,878
Derivative contracts	-	6,118	-	6,118
	<b>325,256</b>	<b>6,118</b>	<b>14,850</b>	<b>346,224</b>

	2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets:</b>				
Private equity including co-investments	-	-	9,984	9,984
Pooled investment vehicles	287,447	-	-	287,447
Equities	11,395	-	-	11,395
Derivative contracts	1,011	1,237	-	2,248
	<b>299,853</b>	<b>1,237</b>	<b>9,984</b>	<b>311,074</b>

## Notes to the financial statements

for the year ended 31 December 2019

### 8. Financial assets (continued)

There were no transfers between levels during the year, one investment in the prior year moved from level 2 to level 3 due to lack of observable market data.

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

	2019 £'000	2018 £'000
At 1 January	9,984	9,000
Additions	6,371	750
Total losses recognised in the Income Statement	(97)	(16)
Transferred from level 2	-	250
Disposals	(1,408)	-
<b>At 31 December</b>	<b>14,850</b>	<b>9,984</b>

### 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 including co-investments. 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.

# Notes to the financial statements

for the year ended 31 December 2019

## 9. Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Seed capital investments into funds operated by the Schroder Group where they are deemed to be subsidiaries are held at fair value through profit or loss.

	2019 £'000	2018 £'000
At 1 January	188,282	191,263
Additions	24,756	-
Disposals	(24,506)	(2,981)
<b>At 31 December</b>	<b>188,532</b>	<b>188,282</b>

The additions during the year were in relation to SRE Invest SCSp, Aquitaine Energies Infrastructures and Social Supported Housing CIP LLP. The disposal during the year related to Aquitaine Energies Infrastructures.

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings, comprising subsidiaries. A full list of these undertakings, the country of incorporation (which in all cases is the principal place of business) and the ownership of each share class, as at 31 December 2019, is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group.

Additionally, related undertakings include interests in entities 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.

All listed subsidiaries are included in the consolidated financial statements of the Group.

### Estimates and judgements

At 31 December 2019, the Company applies judgement to determine whether there is any indication that investments in subsidiaries may be impaired. If any indication exists and a full assessment determines that the carrying value exceeds the recoverable amount, the investment is written down to the net asset value.

The Directors have determined that the carrying value of the investments in subsidiaries are supported by their underlying recoverable value.

# Notes to the financial statements

for the year ended 31 December 2019

## 9. Investments in subsidiaries (continued)

### (a) Related undertakings arising from the Company's corporate structure

#### Principal subsidiaries

The principal subsidiaries listed below are those which, in the opinion of the Directors, principally affect the profits or net assets of the Company or are regulated. The principal subsidiary entities set out below 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, provisions for impairment.

Name	Share Class	%	Address
<b>UK</b>			
Leadenhall Securities Corporation Limited <sup>1</sup>	Ordinary	100%	1 London Wall Place, London, EC2Y 5AU
<b>Guernsey</b>			
Schroder Venture Managers (Guernsey) Limited <sup>2</sup>	Non-cumulative Redeemable Preference shares	100%	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands

#### Other corporate related undertakings

The remaining related undertakings arising from the Company's corporate structure are listed below. These include subsidiaries (other than those listed above), and are fully owned unless otherwise stated.

Name	Share Class	%	Address
<b>UK</b>			
J Henry Schroder Wagg & Co Limited <sup>3</sup>	Ordinary	100%	1 London Wall Place, London, EC2Y 5AU
Social Supported Housing CIP LLP <sup>4</sup>	Partnership interest	50%	
<b>Guernsey</b>			
Schroder Investments (Guernsey) Limited <sup>4</sup>	Ordinary	99.99%	PO Box 334 Regency Court, Glatigny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Ventures Investments Limited <sup>5</sup>	Ordinary	50%	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands
SV (Nominees) Limited <sup>5</sup>	Ordinary	50%	St Peter Port, Guernsey, GY1 3QL, Channel Islands
<b>Luxembourg</b>			
SRE Invest SCSp <sup>5</sup>	Partnership interest	100%	5 rue Höhenhof, L-1736 Senningerberg, Luxembourg

<sup>1</sup>Management of Group capital <sup>2</sup>Holding company <sup>3</sup>Wealth management <sup>4</sup>Asset Management <sup>5</sup>Other

### (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 which are classified as subsidiaries. Additionally, due to the number of share classes or unit classes which 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.

# Notes to the financial statements

for the year ended 31 December 2019

## 9. Investments in subsidiaries (continued)

### (b) Related undertakings arising from the Company's interests in structured entities (continued)

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

Fund name	Share / unit class	Holding in undertaking share / unit class	Holding in undertaking via share / unit class
<b>United Kingdom</b>			
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 Securitized Credit Fund Limited	A Distribution	89%	89%
Schroder US Equity Income Maximiser	L Accumulation GBP Hedged	79%	0%
<b>Australia</b>			
Schroder Absolute Return Income Fund	W Distribution	93%	93%
<b>Brazil</b>			
Schroder Best Ideas FIA	-	99%	99%
Schroder Core Plus FIC FIA	I Accumulation	100%	100%
Schroder Fundo de Investimento Multimercado Low Vol	-	99%	99%
<b>Cayman Islands</b>			
Musashi Smart Premia Fund	C	100%	1%
<b>Japan</b>			
Schroder Global CB Fund PPIT Unhedged	-	64%	64%
Schroder Global CB PPIT Hedged	-	53%	53%
Schroder YEN Target (Annual)	-	34%	34%
<b>Luxembourg</b>			
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 Helix	I Accumulation	97%	70%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	70%
Schroder GAIA II Specialist Private Equity	-	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 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%

# Notes to the financial statements

for the year ended 31 December 2019

## 9. Investments in subsidiaries (continued)

### (b) Related undertakings arising from the Company's interests in structured entities (continued)

Fund name	Share / unit class	Holding in undertaking share / unit class	Holding in undertaking via share / unit class
<b>Luxembourg</b>			
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 Equity Market Neutral	I Accumulation GBP Hedged	99%	54%
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%

**(c) Registered offices of related undertakings arising from the Company's interests in structured entities. The registered offices for each of the entities listed on page 25 and 26 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

#### Brazil

Av. Presidente Wilson, nº 231, 11º andar, Rio de Janeiro, Brazil

#### Cayman Islands

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

# Notes to the financial statements

for the year ended 31 December 2019

## 9. Investments in subsidiaries (continued)

(c) Registered offices of related undertakings arising from the Company's interests in structured entities. The registered offices for each of the entities listed on page 25 and 26 corresponds to the relevant country. (continued)

### Japan

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

Schroder YEN Target (Annual):

1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan

### Luxembourg

5 rue Höhenhof, L-1736 Senningerberg, Luxembourg

ICBC (Europe) UCITS SICAV:

80, route d'Esch, L-1470, Luxembourg

### 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 interests in 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 £'000	2018 £'000
Financial assets (See note 8)	325,256	298,842
<b>Total</b>	<b>325,256</b>	<b>298,842</b>

## 10. Trade and other payables

Trade 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 loans 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 £'000	2018 £'000
Amounts owed to related parties (see note 17)	501,756	472,067
Accruals	65	64
	<b>501,821</b>	<b>472,131</b>

Amounts due to related parties include £501,325,000 (2018: £470,522,000) of interest bearing amounts.

## Notes to the financial statements

for the year ended 31 December 2019

### 11. 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 / (losses) on financial instruments and other income' in the income statement.

	2019 £'000	2018 £'000
Derivative contracts (see note 13)	955	347

#### 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		Total £'000
	Level 1 £'000	Level 2 £'000	
<b>Financial liabilities</b>			
Derivative contracts	47	908	955
	<b>47</b>	<b>908</b>	<b>955</b>

	2018		Total £'000
	Level 1 £'000	Level 2 £'000	
<b>Financial liabilities</b>			
Derivative contracts	232	115	347
	<b>232</b>	<b>115</b>	<b>347</b>

## Notes to the financial statements

for the year ended 31 December 2019

### 12. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2018: 17%), reflecting the rate expected to be applicable at the time the net deferred tax liability is realised.

The movement on the deferred tax liability account is as shown below:

	2019 £'000	2018 £'000
At 1 January	271	119
Income statement charge	213	154
Credit to statement of other comprehensive income	(1)	(2)
Adjustments in respect of prior years	35	-
<b>At 31 December</b>	<b>518</b>	<b>271</b>

A deferred tax asset relating to realised and unrealised capital losses of £2,486,000 (2018: £2,764,000) 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.

### 13. 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. The Company actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Company. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By purchasing or selling derivative contracts, the Company is able to mitigate or eliminate such exposures. The principal risk the Company faces through such use of derivative contracts is one of credit risk only.

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.

## Notes to the financial statements

for the year ended 31 December 2019

### 13. Derivative contracts (continued)

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
<b>2019</b>		
Equity contracts	-	314
Forward foreign exchange contracts	6,118	641
	<b>6,118</b>	<b>955</b>
	Assets £'000	Liabilities £'000
<b>2018</b>		
Equity contracts	1,011	232
Forward foreign exchange contracts	1,237	115
	<b>2,248</b>	<b>347</b>

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market indices or foreign exchange rates 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.

## Notes to the financial statements

for the year ended 31 December 2019

### 14. 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 section and in note 20 in the Schrodgers 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 debt securities 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 either past due or 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	
	2019	2018
	%	%
<b>Credit rating</b>		
AA	91.4	91.3
AA-	8.1	8.5
A+	0.5	0.2
<b>At 31 December 2019</b>	<b>100.0</b>	<b>100.0</b>

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 Company's expected credit losses on cash and cash equivalents and trade and other receivables was immaterial.

# Notes to the financial statements

for the year ended 31 December 2019

## 14. Financial instrument risk management (continued)

### 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 loans and advances to banks and debt securities, a default usually arises when contractual payments are 1 day 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.

### 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.

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 profit for the year would have been £3,003,000 higher / £2,002,000 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 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 loss for the year would have been £3,691,000 higher / £1,845,000 lower, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

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 will not be affected by a change in interest rates.

# Notes to the financial statements

for the year ended 31 December 2019

## 14. Financial instrument risk management (continued)

### Market risk (continued)

#### (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 to US dollars and Euros.

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

As at 31 December 2019, if the US Dollar had weakened 10% / strengthened by 10% against the sterling, with all other variables held constant, the Company's profit for the year would increase by £317,000 / decrease by £317,000.

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 £562,000 / decrease by £421,000.

As at 31 December 2019, if the Euro had weakened 8% / strengthened by 8% against the sterling, with all other variables held constant, the Company's profit for the year would increase by £742,000 / decrease by £742,000.

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 £888,000 / decrease by £622,000.

#### (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 / loss would increase / decrease by £51,678,000 (2018 : £45,780,000), 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 equity and pooled investment vehicles without market hedges, which includes those classified as level 3.
- The market risk on the Company's seed capital that is hedged, is assumed to have no correlation to the FTSE All Share Index.

#### (d) Capital management

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

- Seed capital;
- Equities;
- Debt securities;
- Co-investments; and
- Private equity.

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

## Notes to the financial statements

for the year ended 31 December 2019

### 15. Share capital

	2019 Number	2018 Number	2019 £'000	2018 £'000
<b>Issued and fully paid:</b>				
Ordinary shares of £1 each	32,000,000	32,000,000	32,000	32,000

### 16. Commitments

At 31 December 2019 the Company has committed to invest a maximum of the below amounts. The actual amount is unknown until final closing of the relevant fund.

	Original maximum commitment £'000	Called £'000	Outstanding commitment £'000
<b>GBP</b>			
Schroder UK Infrastructure Debt I Fund L.P.	10,000	-	10,000

	Original maximum commitment €'000	Called €'000	Outstanding commitment €'000
<b>EUR</b>			
Schroder European Operating Hotels Fund I	10,000	-	10,000

	Original maximum commitment £'000	Called £'000	Outstanding commitment £'000
<b>Converted to GBP</b>			
Schroder European Operating Hotels Fund I	8,473	-	8,473

# Notes to the financial statements

for the year ended 31 December 2019

## 17. 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 received / (paid) £'000	Revenue £'000	Expenses £'000	Finance income £'000	Finance charges £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Parent	(16,000)	-	-	-	-	-	-
Subsidiaries of the Company	16,580	10	-	-	-	1	-
Other related companies within the Schroders Group	-	-	(440)	1	(9,174)	2,125	(501,756)
	<b>580</b>	<b>10</b>	<b>(440)</b>	<b>1</b>	<b>(9,174)</b>	<b>2,126</b>	<b>(501,756)</b>

  

	2018						
	Dividends received / (paid) £'000	Revenue £'000	Expenses £'000	Finance income £'000	Finance charges £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Subsidiaries of the Company	-	-	10	-	-	11	-
Other related companies within the Schroders Group	-	-	(473)	-	(8,555)	1	(472,067)
	<b>-</b>	<b>-</b>	<b>(463)</b>	<b>-</b>	<b>(8,555)</b>	<b>12</b>	<b>(472,067)</b>

Transactions with Directors are described in note 3. The ultimate and immediate parent company is disclosed in note 18. Information about subsidiaries is provided in note 9.

At 31 December 2019 the Company held financial assets with a fair value of £230,393,000 (2018: £246,420,000) in funds that were deemed to be subsidiaries of Schroders plc, by nature of the ownership interest by this Company and the powers and rights held by other Group companies. The Company recognised realised losses from related parties of £3,205,000 (2018: £173,000) within 'Net gains / (losses) on financial instruments and other income'.

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

# Notes to the financial statements

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for the year ended 31 December 2019

## 18. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Financial Holdings 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](http://www.schroders.com).