Schroders

Annual Report and Accounts 2019

Schroder Real Estate Investment Management Limited

Year Ended 31 December 2019

Registered Number: 01188240

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Officers and professional advisers

Directors

Melinda Knatchbull
Nicholas Montgomery
Duncan Owen
Georg Wunderlin (appointed on 14 February 2020)

Company Secretary

Schroder Corporate Services Limited

Registered office

1 London Wall Place
London, England
EC2Y 5AU

Independent auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic report

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

Results and Review of the business

The profit for the year, after tax, was £8,379,000 (2018: £8,224,000).

The principal activities of the Company are investment management and advisory services. The Company is authorised and regulated by the Financial Conduct Authority.

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 as yet unclear, the Group's structure provides it with flexibility in deciding how best to respond and continue to service its 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.

Strategic report (continued)

Directors' duties – compliance with s172 of the Companies Act 2006 (continued)

In light of the implementation of the Financial Conduct Authority's Senior Managers & Certification Regime in December 2019, the Board approved changes to its composition during the year, as well as the allocation of senior management functions to individuals performing key roles, the allocation of prescribed responsibilities, and the certification of individuals carrying out certain regulated activities for the Company. In considering these matters, specific attention was given to maintaining the Company's reputation for maintaining high standards of business conduct to the benefit of all stakeholders.

The Board also approved the payment of an interim dividend by the Company to its parent. The Directors considered the long term consequences of paying up from its distributable reserves, noted that the resulting regulatory capital position of the Company would remain within its capital management policy limits, and considered that the payment was in the best interests of it stakeholders as a whole.

Due to the structure of the 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').

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 Schroders plc Group (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 "Key risks and mitigations" in the Strategic report and "Risk and internal controls" within the Governance section of the Schroders plc annual report and accounts for the year ended 31 December 2019. 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:

Ria Vavakis, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
23 April 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 Schroders plc's other subsidiary undertakings, form the Group.

Future developments

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

In the near term, Covid-19 is creating considerable uncertainty for economies and markets. We believe that our business resilience is sufficient to deal with this, but the impact on economies and markets will be highly correlated with how effective containment measures are. The Company already has robust contingency plans in place, including business continuity measures to maintain the resilience of our business, and protect the health and safety of our clients and of our employees. The Company has an ownership structure and strong capital base which enables us to take a truly long-term perspective and stay focused on our strategy and delivering for clients, in any market environment. We continue to closely monitor developments and will follow the advice of government agencies.

Dividends

During the year the Directors declared an interim dividend of £8.7 million in respect of the year ended 31 December 2018 which was paid to the sole member of the Company on 27 March 2019.

The Directors do not recommend the payment of an interim dividend in respect of the year ended 31 December 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 risks 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 are 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 noted below, are listed on page 1. Between 1 January 2019 and 23 April 2020 the following changes have taken place:

Name	Appointed	Resigned
Paul Chislett		08 December 2019
Georg Wunderlin	14 February 2020	

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.

Directors' report (continued)

Employment policy

The Company had no employees during the year (2018: none).

Independent auditors 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, EY will be 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 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 a 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:

Ria Vavakis, Authorised signatory for
Schroder Corporate Services Limited
Company Secretary
23 April 2020

Registered Office
1 London Wall Place
London, England, EC2Y 5AU
Registered in England and Wales No: 01188240

Independent auditors' report to the member of Schroder Real Estate Investment Management Limited

Opinion

We have audited the financial statements of Schroder Real Estate Investment Management 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 20, 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 of 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.

Emphasis of matter – subsequent events

We draw attention to Note 1 and Note 20 of the financial statements, which describes the economic and social disruption the company is facing as a result of Covid-19 which is impacting financial markets, personnel available for work and being able to access offices. Our opinion is not modified in respect of this matter.

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.

Independent auditors' report to the member of Schroder Real Estate Investment Management Limited (continued)

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.

Matters on which we are required to report by exception

In the 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.

Independent auditors' report to the member of Schroder Real Estate Investment Management Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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.

James Beszant (Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London

23 April 2020

Income statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	2	56,161	49,228
Cost of sales	3	(8,578)	(7,244)
Net operating revenue		**47,583**	41,984
Net gains on financial instruments and other income	4	60	180
Net income		**47,643**	42,164
Operating expenses	5	(37,235)	(31,915)
Profit before income tax		**10,408**	10,249
Income tax expense	6	(2,029)	(2,025)
Profit after tax		**8,379**	8,224

Statement of comprehensive income

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit after tax for the year	8,379	8,224
Total comprehensive income for the year net of tax	**8,379**	8,224

Statement of financial position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Cash and cash equivalents	8	902	678
Trade and other receivables	9	42,429	37,314
Deferred tax	12	1,088	792
Total assets		**44,419**	38,784
Liabilities			
Trade and other payables	13	23,077	17,418
Current tax		2,024	1,821
Total liabilities		**25,101**	19,239
Net assets		**19,318**	19,545
Total equity		**19,318**	19,545

The financial statements on pages 9 to 40 were approved by the Board of Directors on 23 April 2020 and were signed on its behalf by:

Melinda Knatchbull
Director

Registered Number **01188240**

Statement of changes in equity

for the year ended 31 December 2019

	Share capital[1] £'000	**Retained earnings[2] £'000**	**Total £'000**
At 1 January 2019	7,900	11,645	19,545
Profit and total comprehensive income for the year net of tax	-	8,379	8,379
Tax credit on items taken directly to equity	-	94	94
Dividends	-	(8,700)	(8,700)
Transactions with shareholders	**-**	**(8,606)**	**(8,606)**
At 31 December 2019	**7,900**	**11,418**	**19,318**

for the year ended 31 December 2018

	Share capital[1] £'000	Retained earnings[2] £'000	Total £'000
At 1 January 2018	7,900	11,297	19,197
Losses on adoption of IFRS 9	-	(33)	(33)
At 1 January 2018 (restated)	7,900	11,264	19,164
Profit and total comprehensive income for the year net of tax	-	8,224	8,224
Tax charge on items taken directly to equity	-	(43)	(43)
Dividends	-	(7,800)	(7,800)
Transactions with shareholders	-	(7,843)	(7,843)
At 31 December 2018	7,900	11,645	19,545

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each.

[2] Retained earnings represents accumulated comprehensive income for the year and prior periods together with transactions with shareholders.

Cash flow statement

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Profit before income tax		10,408	10,249
Adjustments for statement of financial position movements:			
(Increase)/decrease in trade and other receivables		(5,115)	893
Increase/(decrease) in trade and other payables		5,659	(394)
United Kingdom corporation tax paid		(2,028)	(2,812)
Adjustments for which cash effects are disclosed elsewhere:			
Interest received		(214)	(135)
Interest paid		5	(1)
Net cash from operating activities		**8,715**	7,800
Investing activities			
Interest received		214	135
Interest paid		(5)	1
Net cash from investing activities		**209**	136
Financing activities			
Dividends paid		(8,700)	(7,800)
Net cash used in financing activities		**(8,700)**	(7,800)
Net increase in cash and cash equivalents		**224**	**136**
Opening cash and cash equivalents		678	542
Net increase in cash and cash equivalents		224	136
Closing cash and cash equivalents	8	**902**	678

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.

At 31 December 2019, the Company was a wholly owned subsidiary of Schroders Plc, a company incorporated in England and Wales that publishes group consolidated accounts. In accordance with Section 400 of the Companies Act 2006, the Company is therefore not required to produce consolidated accounts. The results of the Company are consolidated in the Annual Report and Accounts of Schroders plc, copies of which can be obtained from www.schroders.com.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('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.

Having assessed the risks to the Company's capital and liquidity, the directors have a reasonable expectation, based on the information available to them at the date of signing, that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least 12 months. Accordingly, 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 available-for-sale.

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.

New accounting standards and interpretations

The Company has applied IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) from 1 January 2019. The nature and effect of these changes are disclosed below.

(i) IFRS 16 Leases

On adoption of IFRS 16, the Company has calculated the right-of-use (ROU) asset as if the standard had always been applied but based on an incremental borrowing rate at 1 January 2019. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the appropriate discount rate at the adoption date. Comparative information has not been restated as the Company has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2019.

The Company has applied the optional exemption contained within IFRS 16, which permits the cost of short-term (less than 12 months) leases to be expensed on a straight-line basis over the lease term. These lease arrangements are not material to the Company.

Notes to the financial statements

for the year ended 31 December 2019

1. Presentation of financial statements (continued)

Basis of preparation (continued)

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB issued IFRIC 23 which became effective on 1 January 2019. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. IFRIC 23 does not have a material impact on the Company's financial statements.

Future accounting developments

The Company did not implement the requirements of any other Standards or Interpretations that were in issue but were not required to be adopted by the Company at the year-end date. No other Standards or Interpretations have been issued that are expected to have an impact on the Company's financial statements.

The Company has complied with regulation 2 of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 by publishing the information in relation to the year ended 31 December 2018 on the Schroders Group Website before 31 December 2019. This is available at www.schroders.com/cbcr. The Company will publish the information in relation to the year ended 31 December 2019 on the Schroders Group Website before 31 December 2020. This will be available at www.schroders.com/cbcr.

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 assumptions that have a significant effect on the carrying amounts of assets and liabilities are set out in the following note:

Note 12 - Deferred tax

Notes to the financial statements

for the year ended 31 December 2019

2. Revenue

The Company's primary source of revenue is fee income from investment management and advisory activities. The fees are generally based on an agreed percentage of the valuation of the assets under management and are recognised as the service is provided and it is probable that the fee will be received.

	2019 £'000	2018 £'000
Management fees	53,497	47,978
Other fees	2,664	1,250
Revenue	**56,161**	49,228

3. Cost of sales

Cost of sales principally comprises investment management fees and commissions payable to other Group entities and third parties recognised over the period for which the service is provided.

4. Net gains on financial instruments and other income

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the year-end date and transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction.

Interest comprises amounts due on loans to other companies within the Schroders Group and temporary surpluses or deficits in the Company's cash accounts held with banks. Interest receivable and payable is recognised using the effective interest method.

Net gains taken to the income statement in respect of financial assets and liabilities are:

	2019 £'000	2018 £'000
Net (losses)/gains on foreign exchange	(149)	46
Finance income	214	135
Finance charges	(5)	(1)
Net gains on financial instruments and other income	**60**	180

Notes to the financial statements

for the year ended 31 December 2019

5. Operating expenses

Operating expenses are recognised on an accruals basis as services are provided. Included within total operating expenses are recharges from other Group companies in relation to employee benefit expenses, including employee share-based payments and deferred cash awards. Deferred cash awards take the form of notional investments in funds operated by the Schroders plc Group and the liability is recorded at fair value.

The deferred cash awards are held as a financial liability and comprise cash settled share based payments and deferred awards in the form of interests in funds. These awards are charged to 'Operating expenses' within the income statement over the performance period and the vesting period of the awards and are recorded based on the proportion of time elapsed and the fair value of the award. Awards that lapse are credited to the income statement, again within 'Operating expenses', in the year which they lapse. The accounting policy in respect of employee share-based payments is set out in note 17.

Pension costs are determined in accordance with IAS 19 requirements and are explained in note 16.

Operating expenses include:

	2019	2018
	£'000	£'000
Salaries, wages and other remuneration	13,541	11,117
Social security costs	1,977	1,406
Other pension costs (see note 16)	796	687
Staff related expense	**16,314**	13,210
Fees payable for the audit of the Company	20	20
Fees payable for other assurance services	6	6
Audit and non-audit fees	**26**	26
Other operating expenses	20,895	18,679
Operating expenses	**37,235**	31,915

All staff related expenses of the Company relate to individuals who are substantially engaged in the Company's business but have contracts of service with and receive their emoluments from another Group company. These are recharged in their entirety to the Company.

Notes to the financial statements

for the year ended 31 December 2019

5. Operating expenses (continued)

Directors' emoluments

The amounts set out below are in respect of 4 (2018: 4) Directors 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.

	2019	2018
	£'000	£'000
Aggregate emoluments	1,768	1,538
Company pension contributions to the defined contribution scheme	6	28
	1,774	1,566

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors were £512,000 (2018: £573,000).

Retirement benefits have accrued to no (2018: none) Directors under a defined benefit scheme and to 2 (2018: 2) Directors under a defined contribution pension scheme.

During the year, 4 (2018: 4) Directors became entitled to shares under the Group's Equity Compensation Plan, 4 (2018: none) Directors became entitled to shares under the Group's Deferred Award Plan and 1 (2018: none) Directors became entitled to shares under the Group's Equity Incentive Plan.

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under deferred incentive plans were £1,130,000 (2018: £1,590,000). In 2019 the Director became entitled to shares under the Group's Equity Compensation Plan (2018: did become entitled) and did become entitled to shares under the Group's Deferred Award Plan (2018: n/a). The Director did (2018: did not) became entitled to shares under the Group's Equity Incentive Plan. The contribution to a defined contribution scheme was £nil (2018: £nil).

Notes to the financial statements

for the year ended 31 December 2019

6. Income tax expense

The Company is based in the UK and pays taxes according to the rates applicable in the jurisdictions in which it operates. Most taxes are recorded in the income statement (see part (a) of this note below) and relate to profits earned in the reporting period (current income tax) but there are also amounts relating to timing differences between the accounting recognition of profits and the tax recognition (deferred income tax). Deferred income tax is explained in note 12. Some current and deferred income tax, mainly relating to changes in the intrinsic value of employee share awards, is recorded directly in equity (see part (b)).

(a) Analysis of income tax expense in the year

	2019 £'000	2018 £'000
Current tax:		
Current tax expense for the year	2,043	1,873
Adjustments in respect of prior periods	213	25
Total current tax expense for the year	**2,256**	1,898
Deferred tax:		
Origination and reversal of temporary timing differences	(85)	183
Adjustments in respect of prior periods	(215)	(67)
Effect of changes in UK corporation tax rate	73	11
Total tax expense for the year	**2,029**	2,025

(b) Analysis of (credit)/charge reported in equity

	2019 £'000	2018 £'000
Current income tax on Equity Compensation Plan and share option awards	(25)	(51)
Deferred income tax on Equity Compensation Plan and share option awards - current year	(75)	96
Deferred tax effect of changes in UK corporation tax rate	6	(2)
Tax (credit)/charge reported in equity	**(94)**	43

Notes to the financial statements

for the year ended 31 December 2019

6. Income tax expense (continued)

(c) Factors affecting income tax expense for the year

The UK standard rate of corporation tax is 19 per cent. (2018: 19 per cent.). The tax expense for the year is higher (2018: higher) than the UK standard rate of corporation tax for the period of 19 per cent. The differences are explained below:

	2019 £'000	2018 £'000
Profit before tax	10,408	10,249
Profit before tax multiplied by corporate tax at the UK standard rate of 19% (2018: 19%)	1,978	1,947
Effects of:		
Non-taxable income net of disallowable expenses	(20)	108
Adjustments in respect of prior periods	(2)	(41)
Deferred tax adjustments in respect of changes in UK tax rates	73	11
Total income tax expense for the year	**2,029**	2,025

7. Dividends payable

Final dividends payable are recognised when the dividend is approved by the shareholder. Interim dividends payable are recognised when the dividend is paid.

	2019		2018	
	£'000	**Pence per share**	£'000	Pence per share
Interim dividend paid	**8,700**	**110**	7,800	99

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8. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts where such facilities form an integral part of the Company's cash management.

The book value of cash and cash equivalents approximates to their fair value.

	2019	2018
	£'000	£'000
Cash at bank and in hand	**902**	678

As part of the Group's process to manage surplus cash and investment returns effectively, surplus cash of £21,731,000 (2018: £25,976,000) was swept to a central bank account held by Schroder Financial Services Limited, a related party. These balances are shown in note 9 trade and other receivables within amounts owed by related parties.

9. Trade and other receivables

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

Apart from prepayments, this represents amounts the Company is due to receive from third parties, including related parties in the normal course of business. These receivables are derecognised on receipt of cash or on recognition of a provision if the receivable is in doubt. Trade and other receivables are stated after the deduction of provisions for bad and doubtful debts. Prepayments arise where the Company pays cash in advance for services not yet received. As the service is provided, the prepayment is recorded in the income statement as an operating expense.

	2019	2018
	£'000	£'000
Amounts owed by related parties (see note 18)	30,917	30,222
Accrued income	6,368	4,769
Fee debtors	3,022	1,197
Other debtors	1,887	963
Prepayments	235	163
	42,429	37,314

Trade and other receivables are all current.

The carrying amount of interest and non-interest bearing trade and other receivables approximate their fair value.

Gross carrying value for trade and other receivables is £42,463,000 (1 January 2019: £37,400,000) and expected credit losses are £34,000 (1 January 2019: £30,000). Expected credit losses as a percentage of gross carrying value is 0.08 per cent. (1 January 2019: 0.1 per cent. nil). Note 14 sets out the basis of the expected credit loss calculation.

Recoverability of the Company's fee debtors is set out in note 14 (Financial risk management).

Notes to the financial statements

for the year ended 31 December 2019

10. Financial assets

The Company has an investment of £1 (2018: £1) in Residential Land Development (GP) LLP (the Partnership), a limited liability partnership registered in England and Wales. The Partnership is held at cost less, where appropriate, provisions for impairment. The investment represents a third of Partnership's members' capital.

On 10 May 2019 the Company became a Member of Social Supported Housing GP LLP (the GP Partnership), a limited liability partnership registered in England and Wales. The Company did not make any capital contributions to the GP Partnership.

The Directors believe that the carrying value of the investments is supported by the underlying assets.

11. Interests in unconsolidated structured entities

The Company has interests in structured entities as a result of its principal activity, the management of assets on behalf of its clients. Assets under management (AUM), excluding segregated client portfolios, are managed within structured entities, typically unitised vehicles which entitle unitholders to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units (or other similar ownership entitlements in the entities) by investors. Most of the Company's funds are also permitted to raise finance through loans from banks and other financial institutions.

The Company earns a management fee from its structured entities, based on a percentage of the entity's net asset value. The business activity of all structured entities is the management of assets in order to generate investment returns from capital appreciation and/or investment income.

The main risk the Company faces from its interests in unconsolidated structured entities is the loss of fee income as a result of the withdrawal of funds by clients or a reduction in the net asset value of assets managed through market movements. Redemptions from funds are largely dependant on market sentiment and asset performance.

The amount of AUM is £1,011 million (2018: £2,246 million).

The following table summarises the carrying values, which also represent the Company's maximum exposure to loss, recognised in the statement of financial position of the Company's interests in unconsolidated structured entities:

	2019	2018
	£'000	£'000
Fee debtors*	2,838	862
Accrued income*	5,504	3,037
	8,342	3,899

* Included within trade and other receivables.

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for the year ended 31 December 2019

12. Deferred tax

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences between the tax bases of assets and liabilities at the balance sheet date and their carrying amounts for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax relating to items recognised directly in the statement of recognised income and expense is recognised in the statement of recognised income and expense and not the income statement.

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

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

	2019 £'000	2018 £'000
At 1 January	792	1,013
Income statement credit/(charge)	300	(116)
Credit/(charge) taken to equity	75	(96)
Income statement expense due to changes in tax rates	(73)	(11)
Effect of changes in UK tax rates - equity (expense)/credit	(6)	2
At 31 December	**1,088**	792

Deferred tax assets	**Accelerated capital allowances £'000**	**Share options and award schemes £'000**	**Total £'000**
At 1 January 2019	2	790	792
Credited to income statement	-	227	227
Credited to equity	-	69	69
At 31 December 2019	**2**	**1,086**	**1,088**
At 1 January 2018	2	1,011	1,013
Expensed to income statement	-	(127)	(127)
Charged to equity	-	(94)	(94)
At 31 December 2018	2	790	792

Notes to the financial statements

for the year ended 31 December 2019

13. Trade and other payables

Trade payables, other than deferred cash awards, are recorded initially at fair value and subsequently at amortised cost. Deferred cash awards settled in cash are recorded at fair value, with remeasurement at each year-end date and settlement date.

	2019			2018		
	Non-current £'000	**Current £'000**	**Total £'000**	Non-current £'000	Current £'000	Total £'000
Financial liabilities held at amortised cost:						
Accruals	3,112	6,421	9,533	2,710	5,892	8,602
Amounts owed to related parties (see note 18)	-	11,658	11,658	-	6,665	6,665
Trade creditors	-	1,886	1,886	-	2,151	2,151
	3,112	**19,965**	**23,077**	2,710	14,708	17,418

The carrying amount of the financial liabilities at amortised cost approximates their fair value.

The Company's financial liabilities held at amortised cost are expected to mature in the following periods:

	2019 £'000	2018 £'000
Less than a year	19,965	14,708
1 - 2 years	849	1,686
2 - 3 years	1,203	778
3 - 4 years	1,060	246
	3,112	2,710
	23,077	17,418

Notes to the financial statements

for the year ended 31 December 2019

14. Financial 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 Business review section and in the Schroders Report. Sensitivities are measured against market risk movements which the Group believes could reasonably occur within the next calendar year.

The Company's specific risk exposures are explained below.

Credit risk

Credit risk is the risk that the Company's counterparty to a financial instrument will cause the Company financial loss by failing to discharge an obligation.

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its related parties and therefore there is no credit risk exposure outside the Group on these balances. Intercompany and cash balances are monitored regularly and historically, default levels have been nil. The Company does not have any receivables that are past due or impaired.

Expected credit losses are calculated in accordance with IFRS 9 on all 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.

Notes to the financial statements

for the year ended 31 December 2019

14. Financial risk management (continued)

Credit risk (continued)

Fee debtors are monitored regularly. Historically, default levels have been insignificant, and, unless a client has withdrawn funds, there is an ongoing relationship between the Company and the client. Although the Company is usually managing client cash representing a large multiple of the amount owed to the Company by the client, the Company does not hold any of the assets it invests on behalf of its clients as collateral.

The Company's related party receivables and fee debtors that are past due but are not considered to be impaired as at 31 December are presented below.

	2019	2018
	£'000	£'000
Older than 30 days not older than 45 days	2,524	805
Older than 45 days not older than 60 days	1,739	668
Older than 60 days not older than 90 days	46	-
Older than 90 days not older than 120 days	15	-
Older than 120 days not older than 180 days	15	-
Older than 180 days	-	-
	4,339	1,473

The Company's cash and cash equivalents are invested primarily in current accounts and on deposit with A+ rated UK banks (2018: AA- and A+ rated).

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.

Notes to the financial statements

for the year ended 31 December 2019

14. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover normal operating requirements. Outside the normal course of business the Company can request to borrow through intra-Group loans to maintain sufficient liquidity. Liquidity in the Group's capital overall (and for each entity) is monitored on a regular basis.

Interest rate risk

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

The Company has interest bearing assets and liabilities which comprises of cash and Group loan balances. The Company's cash and Group loan balances are monitored by the Group Treasury function.

At 31 December 2019, if Bank of England interest rates had been 75 basis points higher or 50 basis points lower (31 December 2018: 100 basis points higher/50 basis points lower) with all other variables held constant, it has been estimated that the post-tax profit for the year would have been £137,000 higher/£92,000 lower (2018: it has been estimated that the post-tax profit for the year would have been £216,000 higher/£108,000 lower), mainly as a result of higher/lower interest income on intercompany loans and cash 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 is that the fair values of assets and liabilities will not be affected by a change in interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's policy in relation to revenue and expenditure currency exposure is not to hedge as this is considered part of the business. The Company currently does not hedge its investment in foreign operating companies but reconsiders its position from time to time.

The Company has assets and liabilities denominated in US dollars. At 31 December 2019, if the US dollar had strengthened by 10 per cent./weakened by 10 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would decrease/increase by £8,214/£10,040. At 31 December 2018, if the US dollar strengthened by 20 per cent./weakened by 15 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would decrease/increase by £21,000/£11,000.

The Company has assets and liabilities denominated in euros. At 31 December 2019, if the euro had strengthened by 8 per cent./weakened by 8 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase/decrease by £120,443/£102,600. At 31 December 2018, if the euro had strengthened by 10 per cent./weakened by 7 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would decrease/increase by £16,000/£10,000.

Notes to the financial statements

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14. Financial risk management (continued)

Pricing risk

Pricing risk is the risk that future cash flows will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. The Company's fee income is principally determined on basis points of the fair value of assets under management. This risk cannot be easily mitigated but is addressed to some extent by on-going net sales.

Capital management

The Company's capital which consists of asset management capital has been classified as operating capital. Operating capital is the capital required to meet the Company's regulatory and working capital requirements. The Financial Conduct Authority (FCA) oversees the activities of the Company and imposes minimum capital requirements. The policy of the Company is to hold sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. Where this is surplus to immediate working capital requirements it is managed by the Group Treasury function. The Group's Capital Committee regularly reviews this.

The Company is authorised and regulated by the FCA. Its last submitted capital resources as at 31 December 2019 totalled £10.8 million (2018: £11.4 million) and the minimum capital requirement was £6.9 million (2018: £5.4 million).

The Company has complied at all times with all of the externally imposed regulatory capital requirements.

15. Share capital

Share capital represents the number of issued ordinary shares multiplied by their par value of £1 each.

Issued and fully paid:	**2019 Number**	2018 Number	**2019 £'000**	2018 £'000
At 1 January and 31 December	**7,900,000**	7,900,000	**7,900**	7,900

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16. Retirement benefit obligations

The Company makes contributions on behalf of its staff to the Schroders Retirement Benefits Scheme (the Scheme) which is administered by a Trustee company, Schroder Pension Trustee Limited. It is a funded scheme comprising a defined benefit (DB) and a defined contribution (DC) section; all current employees are members of the DC section.

Pension contributions are charged as 'Operating expenses' to the income statement in the accounting period in which they arise.

The charge for retirement benefit costs is as follows:

	2019	2018
	£'000	£'000
Pension costs - defined contribution plans	**796**	687

The following disclosures relate to the Scheme as a whole and are not specific to this Company's contribution to the Scheme.

(i) Profile of the Scheme

The Scheme is administered by a trustee company, Schroder Pension Trustee Limited (the Trustee). The board of the Trustee comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for setting the investment strategy and for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for making investment strategy recommendations to the board of the Trustee and for monitoring the performance of the investment manager.

Under the Scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011 (the date the DB section of the Scheme closed for future accrual), actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5% for pensions accrued after 12 August 2007 and 5.0% for pensions accrued before that date.

As at 31 December 2019, there were no active members in the DB section (2018: none) and 2,127 active members in the DC section (2018: 1,973). The weighted average duration of the Scheme's DB obligation is 18 years (2018: 18 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2019	2018
Number of deferred members	1,251	1,327
Total deferred pensions (at date of leaving Scheme)	£9.4m per annum	£10.0m per annum
Average age (deferred)	53	52
Number of pensioners	885	849
Average age (pensioners)	70	70
Total pensions in payment	£20.4m per annum	£19.6m per annum

Notes to the financial statements

for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required (2017: nil). The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

(iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy that aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme.

The most significant risks that the Scheme exposes the Group to are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will reduce the surplus or may create a deficit. The Group manages this risk by holding 64% (2018: 51.6%) of Scheme assets in an LDI portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but that can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collateralised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is BBB.

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for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(iii) Risks of the Scheme (continued)

Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio, which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme’s exposure to changes in gilt yields.

Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2019, the LDI portfolio was designed to mitigate 83% (2018: 77%) of the Scheme’s exposure to inflation risk.

Life expectancy

The majority of the Scheme’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

Notes to the financial statements

for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019

The principal financial assumptions used for the Scheme were as listed below.

	2019	2018
	%	%
Discount rate	2.1	2.9
RPI Inflation rate	3.1	3.3
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	3.0	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.2
Average number of years a current pensioner is expected to live beyond age 60:		
Men	28	28
Women	29	29
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	29	29
Women	30	31

Net interest income is determined by applying the discount rate to the opening net surplus in the Scheme. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality, long dated corporate bonds that are denominated in the currency in which the benefits will be paid.

Estimates and judgements

The Group estimates the carrying value of the Scheme by applying judgement to determine the assumptions as set out on page 32 to determine the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. The sensitivity to those assumptions is set out below. The most significant judgemental assumption relates to mortality rates which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2018:1.0%) per annum. An additional adjustment, an “A parameter” set to 0.5% per annum, introduced this year, allows for the typically higher rate of mortality improvement among members of the Scheme compared to general population statistics.

Mortality tables for male pensioners are scaled back by 2.5% (2018: 5%) and female pensioners are scaled back by 7.5% (2018: 5%) to reflect the history of longer life expectancy of the Group’s employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2019.

Notes to the financial statements

for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019

The sensitivity of the Scheme pension liabilities to changes in assumptions are as follows:

		2019	
		Estimated (increase)/ reduction in pension liabilities	**Estimated (increase)/ reduction in pension liabilities**
Assumption	**Assumption change**	**£m**	**%**
Discount rate	Increase by 0.5% per annum	71.7	8.3
Discount rate	Decrease by 0.5% per annum	(84.0)	(9.7)
Expected rate of pension increases	Increase by 0.5% per annum	(65.3)	(7.5)
Expected rate of pension increases	Reduce by 0.5% per annum	67.3	7.8
Life expectancy	Increase by one year	(37.9)	(4.4)
Life expectancy	Reduce by one year	37.5	4.3

		2018	
		Estimated (increase)/ reduction in pension liabilities	Estimated (increase)/ reduction in pension liabilities
Assumption	Assumption change	£m	%
Discount rate	Increase by 0.5% per annum	65.8	8.3
Discount rate	Decrease by 0.5% per annum	(72.1)	(9.1)
Expected rate of pension increases	Increase by 0.5% per annum	(56.3)	(7.1)
Expected rate of pension increases	Reduce by 0.5% per annum	52.6	6.6
Life expectancy	Increase by one year	(32.1)	(4.1)
Life expectancy	Reduce by one year	33.5	4.2

Notes to the financial statements

for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019 (continued)

Movements in respect of the assets and liabilities of the Scheme are:

	2019 £m	2018 £m
At 1 January	951.2	1,029.2
Interest on assets	27.1	26.1
Remeasurement of assets	54.6	(56.8)
Benefits paid	(31.4)	(47.3)
Fair value of plan assets	**1,001.5**	951.2
At 1 January	(795.6)	(866.3)
Interest cost	(22.6)	(21.9)
Actuarial gains due to change in demographic assumptions	6.4	18.3
Actuarial gains/(losses) due to change in financial assumptions	(90.4)	36.3
Actuarial losses due to experience	5.6	(9.3)
Benefits paid	31.4	47.3
Present value of funded obligations	**(865.2)**	(795.6)
Net asset	**136.3**	155.6

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2019, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

Notes to the financial statements

for the year ended 31 December 2019

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2019 (continued)

The fair value of the Scheme assets at the year end date is analysed as follows:

	2019		2018	
	Value £m	**Of which not quoted in an active market £m**	Value £m	Of which not quoted in an active market £m
Liability driven investments	643.2	-	491.3	12.9
Bonds (excluding those held as part of the liability driven portfolio)	-	-	78.8	-
Portfolio funds	345.6	6.1	348.0	7.8
Exchange-traded futures and over the counter derivatives	(7.8)	(8.1)	(5.7)	(4.2)
Cash	20.5	-	38.8	-
Total	**1,001.5**	**(2.0)**	951.2	16.5

Notes to the financial statements

for the year ended 31 December 2019

17. Share-based payments

The Company makes share-based payments to key individuals through awards over ordinary shares of Schroders plc.

Awards over ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. The fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. Awards are structured as nil-cost options.

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. The fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting periods of the awards. Typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date. Awards are structured as nil-cost options.

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value to the income statement over a five year vesting period. Fair value is determined at the date of grant and is equal to the market value at that time. Awards are structured as nil-cost options.

Awards that lapse or are forfeited result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Company has the following share-based payment arrangements:

2011 Equity Compensation Plan: Under this scheme, key individuals receive deferred bonus awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the third anniversary provided the participant continues to be employed within the Group.

Deferred Award Plan: Under this scheme, key individuals receive deferred bonus awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date provided the participant continues to be employed within the Group.

2008 Equity Incentive Plan: Under this scheme, eligible individuals receive awards of ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the fifth anniversary of the grant, provided the individual continues to be employed within the Group.

All of the above share-based payment arrangements involve a maximum term of ten years for each option granted and are settled through the transfer of equity instruments of its ultimate parent, Schroders plc to its individuals.

Share Incentive Plan: Under this scheme approved by HM Revenue & Customs, eligible individuals can purchase ordinary shares in Schroders plc. each month up to £1,800 per taxation year from their gross salary. The Group matches employee share purchases up to £100 per month. These matching shares are effectively free shares awarded to the individual subject to their remaining in employment for one year.

The Company recognised total expenses of £1,469,000 (2018: £1,124,000) arising from share-based payment transactions during the year.

Notes to the financial statements

for the year ended 31 December 2019

17. Share-based payments (continued)

(a) 2011 Equity Compensation Plan.

	2019	2018
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	45,148	86,841
Granted/Shares in lieu of dividends	7,403	6,972
Forfeited	566	(7,393)
Exercised	(25,840)	(41,272)
Rights outstanding at 31 December	**27,277**	45,148

Vested	**5,881**	8,993
Unvested	**21,396**	36,155

Weighted average fair value of share granted (£)	**25.41**	32.57
Weighted average share price at dates of exercise (£)	**28.01**	33.54

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £180,000 (2018: £166,000) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2019

17. Share-based payments (continued)

(b) Deferred Award Plan

	2019	2018
	Ordinary shares	Ordinary shares
	Number	Number
Rights outstanding at 1 January	48,635	-
Granted/Shares in lieu of dividends	181,988	50,715
Forfeited	-	(2,080)
Exercised	(12,396)	-
Transfers	(138,081)	-
Rights outstanding at 31 December - unvested	**80,146**	48,635
Vested	**4,513**	-
Unvested	**75,633**	48,635
Weighted average fair value of share granted (£)	**29.14**	32.80
Weighted average share price at date of exercise (£)	**27.52**	-

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £1,112,000 (2018: £780,000) was recognised during the financial year.

(c) 2008 Equity Incentive Plan

	2019	2018
	Ordinary shares	Ordinary shares
	Number	Number
Rights outstanding at 1 January	47,321	47,744
Granted/Shares in lieu of dividends	3,272	4,479
Forfeited	(3,753)	(4,902)
Exercised	(23,535)	-
Rights outstanding at 31 December - unvested	**23,305**	47,321
Weighted average fair value of share granted (£)	32.34	26.81
Weighted average share price at dates of exercise (£)	**31.76**	-

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £137,000 (2018: £141,000) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2019

(d) Share Incentive Plan

The monthly share purchase plan is open to most individuals and provides free shares in Schroders plc to match purchases up to a maximum of £100 per month. Pursuant to these plans 1,590 ordinary shares were granted (2018: 1,388), at a weighted average share price of £28.93 (2018: £30.77). A charge of £40,000 (2018: £37,000) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2019

18. Related party transactions

(a) Transactions between related parties

Transactions between the Company, its own subsidiaries and its fellow subsidiaries, which are related parties of the Company, together with details of transactions between the Company and other related parties are disclosed below.

	2019			
	Revenues £'000	**Expenses £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Immediate parent	426	(13,597)	47	(3,029)
Other related companies within the Group	17,295	(6,250)	30,870	(8,629)
Total	**17,721**	**(19,847)**	**30,917**	**(11,658)**

	2018			
	Revenues £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Immediate parent	650	(11,194)	340	(3,194)
Other related parties within the Group	13,446	(6,839)	29,882	(3,471)
Total	14,096	(18,033)	30,222	(6,665)

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 or doubtful debts was recognised in the year in respect of the amounts owed by related parties (2018: £nil).

Notes to the financial statements

for the year ended 31 December 2019

18. Related party transactions (continued)

(b) 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	2018
	£'000	£'000
Short-term staff related benefits	1,966	1,698
Share-based payments	960	674
Other long-term benefits	866	583
Post-employment benefits	6	28
	3,798	2,983

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £188,000 (2018: £61,000) and net interest and fee income of £9,000 (2018: £3,000).

19. Ultimate and immediate parent company

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

20. Subsequent events

On 30 January 2020 the World Health Organization declared the outbreak of coronavirus ("Covid-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

Covid-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019. The most likely expected financial impact is in respect of the Company's future management fee income as this is calculated based on a percentage of assets under management and this has fallen since the year end due to the impact of Covid-19 on financial markets. It is not possible to quantify the overall impact of Covid-19 as financial markets continue to react to developments and management have a number of actions that they are able to take to protect profitability and solvency, should they be required.

In the near term, Covid-19 is creating considerable uncertainty for economies and markets. We believe that our business resilience is sufficient to deal with this, but the impact on economies and markets will be highly correlated with how effective containment measures are. The Company already has robust contingency plans in place, including business continuity measures to maintain the resilience of our business, and protect the health and safety of our clients and of our employees. The Company has an ownership structure and strong capital base which enables us to take a truly long-term perspective and stay focused on our strategy and delivering for clients, in any market environment. We continue to closely monitor developments and will follow the advice of government agencies.