Directors' remuneration policy

Schroders

Introduction

The Directors' remuneration policy set at on pages 75 to 81 of our 2016 Annual Report and Accounts, available at schroders.com/ir, was approved by shareholders of Schroders plc at the 2017 AGM, on 27 April 2017, and is expected to apply for three years from that date.

In 2017, we made changes to our remuneration approach for employees deemed to be material risk takers (MRTs) under the UCITS Directive or AIFMD, increasing bonus deferral levels to create further alignment with clients, and to meet the requirements of those directives. As UCITS funds and funds subject to AIFMD represent a significant part of the Group, we included the executive Directors of Schroders plc as MRTs under these rules (UCITS/AIF MRTs). Our remuneration philosophy remains unchanged, supporting our long-term approach by deferring a significant part of annual variable remuneration into fund and share awards. This provides clear alignment with the long-term interests of clients and shareholders, alongside awards under the Long Term Incentive Plan (LTIP) and requiring executives to acquire and maintain significant shareholdings in the Group.

We are required to bring the Directors' remuneration policy back to shareholders for approval no later than the 2020 AGM.

Remuneration principles

The overall remuneration policy is designed to promote the long-term success of the Group.

The Committee has developed the remuneration policy with the following principles in mind:

Aligned with clients

A significant proportion of higher-earning employees' and MRTs' variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the executive Directors, other members of the Group Management Committee (GMC) and other key employees such as senior fund managers.

Aligned with shareholders

A significant proportion of variable remuneration is granted in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. Executive Directors and other members of the GMC are required, over time, to acquire and retain a significant holding of Schroders shares or rights to shares. On stepping down, the executive Directors are required to maintain a level of shareholding for two years.

Aligned with financial performance

Total variable remuneration is managed as a percentage of pre-bonus profit before tax and exceptional items, the profit share ratio. The total spend on remuneration is managed as a percentage of net income, the total compensation ratio. These ratios are determined by the Committee and recommended to the Board. This approach aligns remuneration with financial performance.

Competitive

Employees receive a competitive remuneration package, which is reviewed annually and benchmarked by reference to the external market. This allows us to attract and retain highly talented people, who know that good performance will be rewarded.

Designed to encourage retention

Deferred variable remuneration does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full.

Directors' remuneration policy

This section sets out the Directors' remuneration policy that was approved by shareholders at the 2017 AGM, incorporating the changes to how we implement the policy that we made in 2017 when we included the executive Directors as UCITS/AIF MRTs.

Remuneration policy for employees including the executive Directors

The table below sets out the key components of the renumeration policy for employees and how the remuneration policy is implemented for the executive Directors. The remuneration policy for non-executive Directors is set out on page 11.

	Component, purpose and link to strategy	Current operation for employees	Application to the executive Directors
Fixed pay	**Base salary** To help recruit, reward and retain talent. Reflects a market competitive rate of pay taking account of the employee's role and responsibilities, skills and experience, and ongoing contribution.	Base salary is paid in cash via payroll. We review base salaries annually. The Group actively targets its spend on salary increases at lower-paid employees, for whom fixed pay forms a larger proportion of total remuneration. For higher-paid employees we adjust base salaries infrequently. The financial situation of the Group and the performance of the individual are taken into account when determining the appropriate level of base salary increase each year, if any.	We aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared to other listed financial services firms and FTSE-100 companies. Like other higher-paid employees, the executive Directors' base salaries are adjusted infrequently. When salaries for executive Directors are increased, the percentage increase will not normally exceed the average annualised increase across the wider workforce. Larger increases may be awarded when Directors' salaries have fallen significantly below international competitors.
	Benefits and allowances To help recruit, reward and retain talent. Reflects local market practice and aims to support employee health and wellbeing.	Employee benefits vary between jurisdictions, reflecting local market requirements. Cash allowances are sometimes paid, typically after a benefit has been phased out and cash in lieu offered in exchange. For employees in the UK, a cash allowance is provided to fund benefit options under a flexible benefits plan. Available benefits include private healthcare, life assurance, accidental death, injury or sickness insurances and tax-efficient charitable donations that are matched by the Company. No performance conditions apply.	Executive Directors receive benefits in kind on the same basis as other UK employees, which are relatively low by UK standards for executive Directors. Directors are covered by the Group's Directors' and Officers' Liability Insurance. Executive Directors may also benefit from private use of a car and driver. The cost of providing benefits varies according to a range of factors, such as insurance premium rates, so no formal maximum exists. Additional benefits may be provided if required, for example to support international relocation.
	Share Incentive Plan (SIP) To help increase the number of employee shareholders and increase their participation as shareholders. Provides potential UK tax benefits.	UK employees are eligible to participate in the SIP. Participating employees use their own funds to acquire Schroders shares (partnership shares) and in return receive awards of shares from Schroders (matching shares) of up to £100 per month based on the market value of the shares. To qualify for maximum tax benefits these shares must be left in the SIP for five years. Participants are free to withdraw their partnership shares at any time but forfeit the corresponding matching shares if they do so or cease to be in employment within one year of acquiring the relevant partnership shares, except in certain circumstances as set out in the rules of the SIP.	Executive Directors are eligible to participate in the SIP on the same basis as other UK employees. The value of any SIP matching shares awarded to the executive Directors during the year is included within the value reported for benefits and allowances.
	Retirement benefits To help recruit, reward and retain talent. Reflects local market practice and enables and encourages provision for retirement.	Retirement benefits vary between jurisdictions in a similar way to benefits and allowances. Base salary is generally the only pensionable element of remuneration. No performance conditions apply. In the UK, base salary up to a maximum of £250,000 is pensionable. The Group's contributions are currently 16% of pensionable salary, plus a contribution to match employee contributions up to a further 2% of pensionable salary. Employees have flexibility and choice over the balance between employer pension contributions and cash in lieu, with options to take as cash some or all of the amount the Company would otherwise contribute to the pension plan.	Executive Directors may participate in pension arrangements, or receive cash in lieu of pension, on the same basis as other UK employees.

Component, purpose and link to strategy	Current operation for employees	Application to the executive Directors
Pay for performance – annual bonus award – upfront		
Annual bonus award To motivate employees to achieve financial, non-financial and personal objectives for the financial year, which are consistent with the Group's strategy. Helps reward talent for their individual contribution. For executive Directors, awards reflect annual performance along with performance over a longer timeframe for some metrics.	Permanent employees are eligible to be considered for an annual bonus award. Awards in respect of each financial year are discretionary and non-pensionable. The Group's total spend on remuneration is managed via the total compensation ratio and the profit share ratio. Individual awards are not capped. The amount if any that eligible employees are awarded is determined based on a number of financial and non-financial factors, including individual performance objectives, that may vary from year to year to ensure alignment with the Group's strategic goals. Bonuses are delivered as a combination of cash, normally payable in February following the end of the financial year, and awards under the Group's deferred compensation plans. For most employees, any annual bonus award worth up to £52,000 will be payable in cash. Larger awards are subject to a graduated level of deferral, up to 50%. We pay the upfront portion (i.e. that part that is not deferred) in cash in February following the end of the financial year and we grant the deferred portion as a combination of fund and share awards under the ECP. For employees who are UCITS/AIF MRTs, including members of the GMC, we defer 40% to 60% of any annual bonus awarded. Of the upfront portion (i.e. that part that is not deferred), we pay 50% in cash in February following the end of the financial year and grant the other 50% as an upfront fund award under the DAP. We grant the deferred portion as a combination of fund and share awards, also under the DAP.	Annual bonus awards operate the same way for the executive Directors as for other employees who are UCITS/AIF MRTs except that the executive Directors deferral is fixed at 60% and where a LTIP award has been granted during the year we reduce the deferral in respect of that year is reduced by 25% of the grant value of the LTIP award. In setting executive Directors' bonuses, the Committee assesses the overall performance of the business and of each executive Director and applies its judgement to determine an award, taking account of the recommendation of the Chairman in respect of the Group Chief Executive and of the Group Chief Executive in respect of other executive Directors. There is no prescribed weighting of particular metrics but financial performance factors are central to the decision. Factors considered include the trend in profit for the year; investment performance; the management of risks facing the Group; talent retention and succession planning; progress on diversity and inclusion strategy; cost control; the Company's reputation; business performance in each Director's area of responsibility; and Schroders share price performance. Targeted performance is in line with the Group's strategic goals and the budget for the year. In addition, performance against the annual objectives for each Director is taken into account. These metrics were chosen as they are aligned with the corporate strategy and reflect the areas on which the executive Directors should focus.

Component, purpose and link to strategy	Current operation for employees	Application to the executive Directors

Pay for performance – annual award bonus – deferred

Deferred Award Plan (DAP)

The Group's main deferral arrangement for annual bonus awards to UCITS/AIF MRTs, including the executive Directors. Aligns the interests of employees with those of clients and shareholders, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders. May be used to compensate new recruits who forfeit remuneration from their previous employer to join Schroders.

We grant DAP awards to the executive Directors on the same basis as those granted to other UCITS/AIF MRTs. The expectation is that the DAP will continue to be used for future deferred bonus awards to the executive Directors.

Awards relate to past performance and so no further performance conditions apply. Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. Share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to dividends paid accrue until the share award is exercised. At the Company's discretion, share awards may be settled in cash but this would only be used in exceptional circumstances, for instance in a jurisdiction where settlement in shares would create an adverse outcome for the Group or award holder. Malus and clawback terms apply.

An upfront fund award cannot be exercised for six months from the date of grant. It is not normally subject to forfeiture if the holder leaves the Group but is subject to malus terms from the date of grant to the date of settlement and then clawback terms for 12 months from the date of settlement.

The deferred portion of annual bonus awards is generally delivered as a combination of fund awards and share awards; in recent years we have generally granted deferrals equally between fund and share awards, subject to a minimum fund award of £10,000. To provide an incentive to stay at Schroders, deferred awards granted under the DAP do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the third anniversary of grant in order to vest in full.

Deferred fund awards under the DAP normally require the participant to be employed continuously by the Group until 3.5 years from grant to vest in full. These awards are available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from the grant date. If an MRT resigns prior to the final vesting date then they normally forfeit part of these awards, as follows:

Years since grant date:	Less than 1.5	1.5 to 2.5	2.5 to 3.5
% lost for fund awards	100%	66.7%	33.3%

Deferred share awards operate on similar terms but the deferral period is three years, rather than 3.5. These awards are available to exercise in three equal instalments after 1, 2 and 3 years from the grant date. If an MRT resigns prior to the third anniversary of grant the forfeiture terms are as follows:

Years since grant date:	Less than 1	1 to 2	2 to 3
% lost for share awards	100%	66.7%	33.3%

The general application of the DAP is subject to variation in some locations to reflect local restrictions, regulation and practice. Awards can be adjusted to take account of legal, tax and regulatory changes, a change in the Group's capital or following change of control, or in other circumstances that the Committee considers appropriate.

An award holder who leaves the Group may be entitled to retain more of their awards in certain circumstances, such as death, ill health or injury, or otherwise at the Committee's discretion. When ECP awards are used as part of recruitment, the Committee can set a different vesting period to better align with the awards that the recruit is forfeiting.

Equity Compensation Plan (ECP)

The Group's main deferral arrangement for annual bonus awards to employees who are not UCITS/AIF MRTs. Like the DAP, aligns the interests of employees with those of shareholders and clients, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders. May be used to compensate new recruits who forfeit remuneration from their previous employer to join Schroders.

Since 2018, the executive Directors' deferred bonuses have been granted under the DAP but they still hold ECP awards relating to earlier deferred bonuses.

The ECP is still used to grant awards in respect of bonus deferral for employees who are not UCITS/AIF MRTs. ECP fund and share awards operate on very similar terms to awards granted under the DAP, as outlined above.

If a participant resigns before the third anniversary of grant, awards are normally subject to forfeiture as follows:

Years since grant date:	Less than 1	1 to 2	2 to 3
% lost for both share and fund awards	100%	66.7%	33.3%

Component, purpose and link to strategy	Current operation for employees	Application to the executive Directors
Pay for performance – EIP		
Equity Incentive Plan (EIP) To reward exceptional performance and potential. Aligns employee interests with shareholders or clients, provides an incentive to stay at Schroders and makes it more expensive for competitors to recruit from Schroders.	Executive Directors are not eligible to receive new EIP awards. The EIP is an additional deferred remuneration plan, used to reward exceptional performance and potential. No further performance conditions apply. EIP awards do not give rise to any immediate entitlement and require the participant to be employed continuously by the Group until the fifth anniversary of grant. Malus and clawback terms apply. If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full. EIP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. EIP share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to the dividends paid accrue until the award is exercised. EIP awards may also be used as part of recruitment, in a similar way to DAP and ECP.	
Pay for performance – LTIP		
Long Term Incentive Plan (LTIP) To incentivise executive Directors to deliver long-term performance and the achievement of strategic priorities, while maximising alignment with shareholder interests.	Only executive Directors receive awards under the LTIP currently. Executive Directors typically receive an LTIP award in March each year. LTIP awards are conditional rights to acquire shares in the Company at nil cost. Annual LTIP awards can be up to four times base salary for any individual and have a four-year performance period. From 2018, awards granted to executive Directors are subject to a 12-month holding period from when they vest, during which they cannot be exercised, after which they may then be exercised within a 12-month period. Malus and clawback terms apply. LTIP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the awards vest, following the end of the four-year performance period. At that time, the Committee will determine the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised. A participant who leaves the Group may still receive a proportion of their awards in certain circumstances, such as death, ill health or injury, or otherwise at the Committee's discretion. In these circumstances, the award vests at the end of the performance period in the normal way, subject to meeting the performance conditions, with the proportion that vests adjusted downwards for the proportion of the performance period worked. Vesting may be accelerated if the participant dies, with the proportion that vests determined by estimating the extent to which the performance conditions will be met. At the Company's discretion, LTIP awards may be settled in cash but this discretion would only be exercised in exceptional circumstances, for instance in a jurisdiction where settlement in shares would create an adverse outcome for the Group or award holder. The Committee determines the performance conditions for each award and uses its judgement to set challenging criteria that are consistent with the Group's strategy. Since the LTIP was approved by shareholders in 2010, the vesting of awards has been subject to performance conditions based on Earnings Per Share (EPS) growth, in respect of 50% of each award, and Net New Business (NNB), in respect of the other 50%. • EPS growth was chosen as a measure of profitability and is measured relative to a composite index that the Committee believes to be a reasonable proxy for the market movement of Schroders' Assets Under Management (AUM). As a result, earnings increases or decreases purely as a result of movements in financial markets are excluded from the measurement of performance. Each year that this EPS performance condition is used, the balance of Schroders' AUM at the previous year end has been reviewed to determine the weighting of the underlying indices that make up the composite index for new awards. If the growth of adjusted EPS in the fourth year compared with that in the year prior to grant exceeds the growth in the composite index over the same period by 20% then 12.5% of the award vests, rising on a straight-line basis to 50% vesting for comparative growth of 40% or more. Comparative growth of 20% or less is not rewarded. Targets were set at 20% to 40% as a range of outperformance of the composite index that is very stretching. • NNB, being gross sales less gross redemptions, was chosen as a measure of the Group's organic growth. If cumulative NNB over the four-year performance period is £15 billion then 12.5% of the award vests, rising on a straight-line basis to 50% vesting for NNB of £25 billion or more. NNB of less than £15 billion is not rewarded. Targets were set by reference to historical actual performance, aiming to provide targets that are stretching but not unrealistic. For LTIP awards made from 2018 onwards, when determining vesting the Committee has the discretion to reduce the extent to which awards vest if the Group has suffered a material failure of risk management or if the Committee judges that the unadjusted outcome from the performance conditions does not reflect underlying performance.	

Component, purpose and link to strategy	Current operation for employees	Application to the executive Directors
Malus and clawback policy To allow variable remuneration awards to be risk-adjusted in certain circumstances.	Under malus terms, deferred remuneration awards granted under the DAP, ECP, EIP or LTIP may be reduced or lapsed, at the Committee's discretion. Under clawback terms, amounts paid or released from such awards may be recovered for a period of 12 months from the date of payment or release, at the Committee's discretion. These terms can be used to risk-adjust deferred remuneration awards in a range of circumstances, set out in the Group's malus and clawback policy. Those circumstances include: • Fraud, misbehaviour or misconduct by the Participant • Serious error by the Participant as a result of the Participant's negligent conduct or omission • A significant failure of risk management for which the Participant has significant responsibility • A material financial misstatement for which the Participant has significant responsibility or which has led to a greater portion of an award being released to the Participant than would otherwise have been the case • There is a regulatory sanction where the conduct or omission of the Participant significantly contributed to the sanction. Malus terms apply to ECP awards granted since May 2011, to EIP awards granted since July 2013 and to DAP and LTIP awards granted at any time. Clawback applies to ECP, EIP and LTIP awards granted since October 2013 and to DAP awards granted at any time. For awards granted prior to 2018 the circumstances in which malus and clawback terms could be applied were more narrowly described.	Malus and clawback terms apply to awards granted to the executive Directors on the same basis as for other employees. In addition, executive Directors' service contracts extend clawback terms to the upfront cash portion of any annual bonus awards, in the event of individual misconduct.
Personal shareholding policy To align the interests of senior management with those of shareholders.	Members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary. Each GMC member undertakes not to sell or transfer any Schroders shares until their share ownership target has been reached and to ensure that the required shareholding is maintained when selling or transferring shares, except that shares may be sold to satisfy tax and social security liabilities arising when an award vests or is exercised. For these purposes, rights to shares includes the estimated after-tax value of DAP, ECP and EIP share awards but does not include any unvested rights to shares awarded under the LTIP, as these are subject to performance conditions.	The personal shareholding policy for the Group Chief Executive requires the acquisition and retention of shares or rights to shares equivalent to 500% of base salary. For the other executive Directors the requirement is 300% of base salary. On stepping down as an executive Director, half the level of shareholding required while an executive Director must be maintained for two years, or the actual level of shareholding on stepping down if lower.
Shareholder dilution	Deferred remuneration plans involving Schroders shares are non-dilutive to shareholders, as shares to satisfy awards are purchased in the market.	

In approving the application of this policy to the executive Directors, authority is given for the Group to honour any commitments entered into with current or former Directors prior to the approval and implementation of the policy (such as payment of pension or the vesting or exercise of past share awards), provided that such commitments complied with any applicable remuneration policy in effect at the time they were given. Any remuneration commitment made prior to an individual becoming a Director and not in anticipation of their appointment to the Board may be honoured, even where it is not consistent with the Directors' remuneration policy in place at the time it is fulfilled.

Considerations when setting policy

In recommending the Directors' remuneration policy to the Board and to shareholders, the Committee aims to ensure that policies and practices are consistent with the principles outlined on page 1, while supporting effective risk management so as not to encourage excessive or inappropriate risk-taking.

During 2016, the Committee and the Board discussed possible changes in remuneration philosophy and approach, including aligning more closely with FTSE-100 norms. The simplicity of the current approach has many benefits, including keeping the fixed cost base of the Group relatively low. The Board concluded that overall it remains appropriate but that changes to the Directors' remuneration policy should be made to develop further the alignment of executive pay to the financial performance of the Group and the interests of clients and shareholders.

Feedback received from shareholders on Directors' remuneration was discussed by the Committee and the Board and taken into account when considering the new policy. Overall, 96% of shareholder votes received at the 2016 AGM were cast in favour of the Annual report on remuneration and 92% of votes received at the 2014 AGM were cast in favour of the current Directors' remuneration policy. The table below summarises concerns raised by a small minority of shareholders during 2016 and the policy changes proposed as a result.

As far as possible, the remuneration policy for executive Directors is consistent with that applied for other employees, as shown in the tables on pages 2 to 6. Employees are not consulted on the Directors' remuneration policy but management engage with employees on a wide range of other relevant issues, including via Employee Forums in the UK and globally, which provide an additional channel for representing and understanding employee views.

The Group's remuneration policies and practices take account of legislation, regulation, corporate governance standards, best practice and guidance issued by regulators, shareholders and shareholder representative bodies. Reward policies comply with the relevant provisions of the FCA's Remuneration Codes, the Remuneration Part of the PRA Rulebook and the UK Corporate Governance Code. Each year the Committee works to ensure that variable remuneration reflects performance and strikes the appropriate balance between managing current and future risk and reward. The Committee reviews Directors' remuneration in the context of remuneration across the Group, including financial performance, the total compensation ratio, the profit share ratio and the allocation of variable remuneration between employees.

Shareholder comments	Committee's considerations during 2018
Total remuneration for the executive Directors is too high.	The Group aims to pay employees including the executive Directors competitive levels of total remuneration, which are reviewed annually and benchmarked by reference to the external market. Pay is driven by the performance of the Group and of each Director. Benchmarking is used to establish a frame of reference for what competitors are paying, rather than as a start point or primary factor when remuneration decisions are made. Information on the competitive positioning of executive Directors' remuneration is provided each year in the Remuneration report within the Annual Report and Accounts. We also disclose the ratio of the Group Chief Executive's remuneration to that of other employees across the Group.
A maximum annual bonus award should be specified for each executive Director.	During 2016 the Committee again revisited the merits of capping annual bonus awards at an individual level. We continue to believe that not setting a cap for individual annual bonus awards is in the best interests of shareholders. It allows us to attract, retain and motivate the best talent, who know that good performance and behaviour in line with our values will be rewarded. It also allows us to keep base salaries relatively low, controlling the fixed cost base when times are challenging.
Remuneration is too short-term. Bonus deferral should be higher and LTIP awards should make up more of total remuneration.	Under the new Directors' remuneration policy, the proposal is to increase the proportion of any annual bonus awards for executive Directors that is deferred, from approximately 50% to approximately 60%. LTIP grant levels have varied historically and the existing approach continues to be appropriate, using LTIP awards alongside significant deferral of annual bonus awards into share and fund awards. Although the LTIP incentivises long-term performance and the achievement of strategic priorities it also creates challenges in setting meaningful longer-term targets that are aligned with the interests of shareholders and clients and remain so as the economy and business cycles evolve.
The LTIP performance metrics are too complex.	The Committee recognises that the composite index used for EPS performance measurement is complex but considers that the benefits, in excluding earnings increases or decreases purely as a result of movements in financial markets, justify the continuation of this approach.
LTIP performance and holding periods should total at least five years.	Under the new Directors' remuneration policy, LTIP awards may not be exercised in the first year following vesting, which alongside the four-year performance period will align the LTIP with this guidance.

The Committee does not set fixed ratios for Directors' pay relative to other employees as it believes this would restrict flexibility in aligning reward and performance appropriately. However, the Committee does consider this when setting the level of annual bonus award payable to the Group Chief Executive.

Considerations when determining the remuneration approach for UCITS/AIF MRTs

From 2017, we changed the remuneration approach for employees deemed to be MRTs under the UCITS Directive or AIFMD, to meet the requirements of those Directives. The executive Directors' bonuses continue to operate in line with the Directors' remuneration policy approved by shareholders in April 2017. However, as UCITS funds and funds subject to AIFMD represent a significant part of the Group, we included the executive Directors as MRTs under these rules.

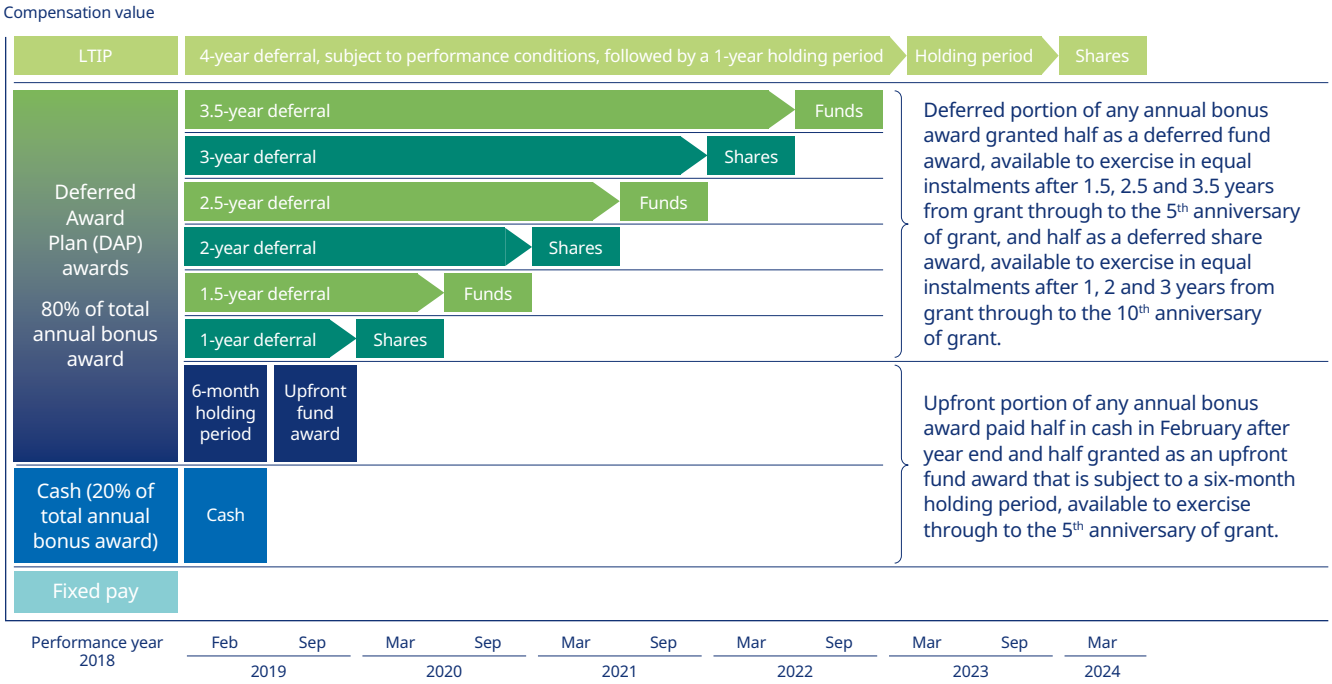
For the executive Directors, as UCITS/AIF MRTs, we adjusted our remuneration policy implementation for performance-year 2017 and for future years as follows:

- We increased the proportion of executive Directors' annual bonus awards that is deferred, from approximately 50% to approximately 60%.
- We continue to split the executive Directors' deferred annual bonus awards equally between fund awards and share awards, creating alignment with clients and shareholders.
- Previously all of the upfront portion of any annual bonus award (i.e. that part that is not deferred) was paid in cash. From 2018 onwards, we paid only half of the upfront bonus in cash and granted the other half as an 'upfront fund award'. Upfront fund awards are granted at the same time as deferred bonus awards and cannot be exercised for six months from grant. This further aligns the interests of the executive Directors with our clients. Unlike the deferred portion of any bonus, an upfront fund award is not normally at risk of forfeiture if the holder leaves the Group.
- We also extended the overall deferral period for deferred fund awards by six months. These awards will be available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from the date of grant. The overall deferral period for share awards remains three years and these awards will be available to exercise in three equal instalments after 1, 2 and 3 years from the grant date.
- We created a new deferred remuneration plan, the DAP, and used this to grant deferred bonuses and upfront fund awards for MRTs, including the executive Directors. The plan we previously used to grant deferred bonuses, the ECP, is sufficiently flexible for us to grant awards under this new approach but we designed the DAP specifically with the new approach in mind. Prior shareholder approval of the DAP was not required as any awards to the executive Directors under this plan will only be in respect of the deferral of bonus. Employees who are not deemed to be UCITS/AIF MRTs continue to be granted deferred bonuses under the ECP.
- We adopted a broader description of the circumstances in which malus and clawback terms could be applied, which include a material misstatement of the Group's financial results, individual misconduct or negligence.

These changes in approach are reflected in the remuneration policy summary for the executive Directors on pages 2 to 6.

Executive Directors' remuneration policy illustration

- The diagram below illustrates the structure of the executive Directors' remuneration, including the timing of when they receive each component of their total remuneration, across the following:
- Fixed components of pay, for salary, benefits and allowances based on when they are paid or enjoyed, and for retirement benefits on when contributions are made or cash in lieu paid;
- The different components of any annual bonus award, showing for each portion when it will be paid or available to exercise; and
- The LTIP performance and holding periods, based on the LTIP awards to be granted following the financial year end.

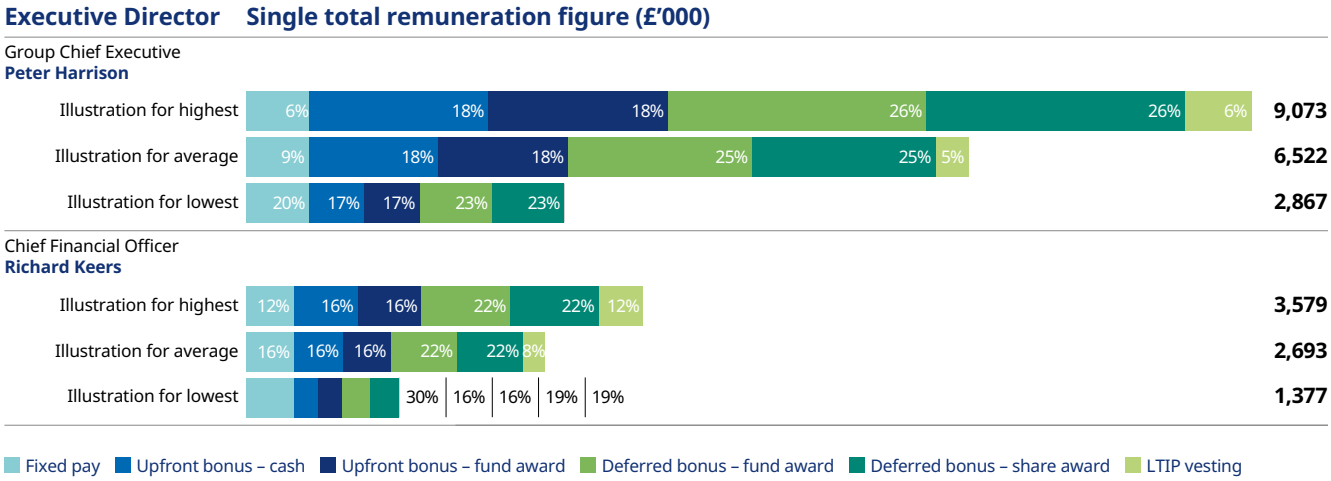


The table below provides more information on each of the components of pay illustrated above.

Component of pay	Deferral and holding periods	Malus applies until paid/settled	Clawback applies
LTIP	Vests after the 4-year performance period, followed by a 1-year holding period	May be exercised from when the holding period ends, for a 12-month period	For 12 months from settlement. This period may be extended in certain circumstances
Deferred bonus – fund award	Deferred for 1.5, 2.5 or 3.5 years, so normally available to exercise from September of years 1, 2 or 3 following grant	May be exercised from when the deferral period ends to the 5th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Deferred bonus – share award	Deferred for 1, 2 or 3 years, so normally available to exercise from March of years 1, 2 or 3 following grant	May be exercised from when the deferral period ends to the 10th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Upfront bonus – fund award	Six-month holding period, so normally available to exercise from September following the year-end	May be exercised from when the holding period ends to the 5th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Upfront bonus – cash	Paid in February following the year-end	Conditions comparable with malus terms apply until the date of payment	For 12 months from settlement. This period may be extended in certain circumstances
Fixed pay	Paid during the performance-year	Not applicable	Not applicable

Remuneration policy scenarios

The potential value of each component of remuneration for the executive Directors is illustrated below. These scenario charts show, for each of the executive Director roles, the relative split of fixed components of remuneration, annual bonus awards and LTIP awards, in accordance with the Directors' remuneration policy. The lowest, average and highest remuneration over the ten years ended 31 December 2018 has been used as an indication of the earnings potential for each role. Over the same period, profit before tax and exceptional items has ranged from £137.5 million to £800.3 million. Future remuneration will be determined based on performance, as described elsewhere in this report.



The remuneration policy illustrations above are based on actual fixed pay and annual bonus awards for each role over the ten years ended 31 December 2018 and the LTIP awards due to be granted in March 2019, as follows:

Fixed pay

In these scenarios, fixed pay consists of base salary, benefits and allowances and retirement benefits. Salary is the annual salary effective from 1 March 2019. Benefits and allowances and retirement benefits are the anticipated annualised amounts from 1 March 2019.

£'000	Base salary	Benefits and allowances	Retirement benefits	Total fixed pay
Group Chief Executive	500	15	45	560
Chief Financial Officer	375	7	45	427

	Lowest	Average	Highest
Annual bonus award	Being the lowest over the last ten years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.	Being the mean over the last ten years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.	Being the highest over the last ten years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.
	In all three scenarios the annual bonus award is then partly paid in cash, part granted as an upfront fund award and part subject to deferral into fund and share awards, as outlined in the policy.		
LTIP	Assuming no vesting.	Being the face value of the award to be granted in March 2019, assuming 50% vesting.	Being the face value of award to be granted in March 2019, assuming 100% vesting.

The total remuneration values used in these scenarios for the Group Chief Executive reflect the remuneration awarded to Peter Harrison in respect of 2016 to and 2018 performance and to his predecessor Michael Dobson in respect of performance in 2009 to 2015. For the Chief Financial Officer they reflect the remuneration awarded to Richard Keers for performance in 2013 to 2018 and to his predecessor Kevin Parry for performance in 2009 to 2012.

Remuneration policy for the non-executive Directors

The table below sets out the remuneration policy for non-executive Directors, who only receive fixed pay and benefits.

	Component	Operation	Further information
Fixed pay	**Fees** To reflect the skills, experience and time required to undertake the role.	Fees for the Chairman and other non-executive Directors are determined by the Board based on market information for comparable asset managers and other financial services groups and the constituent companies of the FTSE-100 Index. Non-executive Directors do not participate in decisions concerning their fees.	Fees are usually reviewed biennially.
Fixed pay	**Benefits** To enable the non-executive Directors to undertake their roles.	Non-executive Directors' benefits are principally expenses incurred in connection with the Group's business and reflect business needs. Non-executive Directors may receive private use of a driver, car parking, meals, travel costs, tax on reimbursed benefits and, in the case of Bruno Schroder, private health care and medical benefits. Michael Dobson receives life insurance benefits on the same terms as UK employees and private health care and medical benefits for him and his family.	Schroders does not pay retirement or post-employment benefits to non-executive Directors. They do not participate in any of the Group's incentive arrangements. Michael Dobson, Philip Mallinckrodt and Bruno Schroder have accrued pension benefits, as former executives. Michael Dobson and Bruno Schroder have been in receipt of a pension since May 2012 and April 2007 respectively. All three have ceased accruing any further entitlement.

Recruitment of new Directors

The table that follows summarises the remuneration policy when hiring new executive Directors.

		Policy and operation
	Overall approach	On appointment, the Committee aims to pay executive Directors remuneration that is appropriate in level and structure to attract, motivate, retain and reward Directors of the quality required to run the Group successfully, while avoiding paying more than is necessary.
	Notice periods	The Group's general policy is that each executive Directors will have a rolling contract of employment with mutual notice periods of six months. The Committee will consider the appropriate notice period when appointing any new executive Director. If necessary to secure a new hire, a notice period of up to 12 months may be offered. When recruiting new executive Directors, the Committee's policy is that contracts will not contain any provision for compensation upon early termination.
	Base salary	Base salary is likely to be set at the same level as for other Directors, provided this is justifiable by reference to the candidate's skills and experience, and taking into account remuneration in their most recent role, internal relativities and external market rates for roles with similar responsibilities.
	Other fixed pay	Benefits and allowances, retirement benefits and SIP participation will be provided to new executive Directors on a similar basis as those available to other employees. If the Group hires a new executive Director internationally then relocation support may be offered, on a similar basis to that which might be offered for other employees. This may include support such as temporary accommodation, assistance finding new accommodation, transportation of household goods, school search for children moving internationally with the Director, tax advice and assistance preparing tax returns and a one-off cash allowance of up to £5,000 after tax.
	Annual bonus award	New executive Directors would be eligible to be considered for annual bonus awards in the same way as existing Directors. The Group does not award guaranteed annual bonuses to executive Directors.
	LTIP	New executive Directors would be eligible to be considered for LTIP awards in the same way as existing Directors.
	Legal fees	The Group may pay reasonable fees for a new executive Director to obtain independent legal advice in relation to their appointment.
	Buy-out awards	Where a candidate will forfeit remuneration as a result of leaving their current employer or joining Schroders, the Group may mitigate that loss by making one-off awards as a term of their appointment. The Committee will take reasonable steps to ensure that any such awards are no more generous in either amount or terms than the remuneration being forfeited. Any deferred remuneration will be subject to malus and clawback terms, in the same way as the award being replaced.

New non-executive Directors receive fees and benefits in line with the policy for other non-executive Directors. Non-executive Directors are engaged under letters of appointment. They do not have service contracts. When recruiting new non-executive Directors, the Board's policy is that letters of appointment will have a mutual notice period of six months.

Directors' service contracts and letters of appointment

Each of the executive Directors has a rolling service contract with a mutual notice period of six months. Each of the non-executive Directors has a letter of appointment with a mutual notice period of six months, with the exception of Bruno Schroder who does not have a notice period. Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at each AGM.

Policy on termination arrangements

The table that follows sets out the remuneration policy on termination of a Director.

	Policy and operation
Overall approach	When an executive Director leaves the Group, the Committee will review the circumstances and apply the treatment that it believes is appropriate. Any payments will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any deferred remuneration plans and the Directors' remuneration policy. There are no contractual provisions for non-executive Directors to receive compensation upon termination.
Restrictive covenants	Executive Directors' service contracts include restrictions prohibiting the solicitation of clients and of Schroders employees for a period of 12 months after leaving employment, against which any period spent on notice or garden leave is offset.
Fixed pay	Base salary, benefits and allowances and retirement benefits for executive Directors and fees for non-executive Directors will continue to be paid through the notice period. The Committee also has the discretion to make a payment in lieu of notice to executive Directors, normally based on salary only. The treatment of shares acquired or awarded under the SIP will be in accordance with the plan rules.
Annual bonus awards	Departing executive Directors do not have a contractual entitlement to an annual bonus award. If a departing Director works during the notice period to achieve the Group's goals and supports an effective transition of responsibilities, the Committee may recommend to the Board that a discretionary payment be made to reflect the Director's contribution during the proportion of the financial year worked. Any such payment will normally be subject to the same deferral arrangements as an annual bonus award, provided this is permitted under applicable law and regulations and except in the case of death, ill health or injury when payment may be fully in cash, at the Committee's discretion.
Treatment of unvested DAP and ECP awards	The treatment of awards under the DAP or ECP held by departing executive Directors will be in accordance with the relevant plan rules. In certain circumstances, those rules permit participants to retain some or all of their unvested awards following the termination of their employment, for example if the employee is leaving due to ill health or injury, or otherwise at the discretion of the Committee. Any unvested DAP or ECP awards that are retained will vest on their normal vesting date except in the case of death, and ill health at the Committee's discretion, when they vest immediately. If the Committee uses its discretion to permit a departing employee to retain unvested awards, the unvested deferred remuneration that the leaver is entitled to retain remains at risk of forfeiture until the normal vesting date if they join a competitor or poach Schroders' clients or employees.
LTIP awards	Departing executive Directors are not eligible to receive new LTIP awards.
Treatment of unvested LTIP and EIP awards	The treatment of awards under the LTIP and EIP will be in accordance with the relevant plan rules. For the EIP this operates on a similar basis as for the ECP. For the LTIP this is similar except that in all cases any vesting remains subject to satisfaction of the associated performance conditions and will be reduced pro-rata for the proportion of the performance period worked.
Shareholding requirements	On stepping down, executive Directors are required to maintain for a period of two years a holding of shares or interests in shares equal in number to half that which applied under the personal shareholding policy, or the number actually held on stepping down if lower.
Legal fees	The Group may pay reasonable fees for a departing Director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Company's rights following termination. If the value of either of these exceeds £10,000 it will be disclosed in the Annual report on remuneration.
Retirement gifts	The Board may choose to make a retirement gift to a departing non-executive Director. If the value of any such gift exceeds £10,000 it will be disclosed in the Annual report on remuneration.
Settlement agreements	The Committee may agree additional exit payments where such payments are made in good faith to discharge an existing legal obligation, or as damages for breach of such obligation, or in settlement or compromise of any claim arising on termination of a Directors' office or employment. This may include the provision of outplacement support. If the value of any such payment exceeds £10,000 it will be disclosed in the Annual report on remuneration.
Other payments	Other payments to former Directors that do not exceed £10,000 will not be disclosed in the Annual report on remuneration.

Glossary

Alternative Investment Fund Managers Directive (AIFMD)
The Alternative Investment Fund Managers Directive is a European Union regulatory framework for alternative investment fund managers, including managers of hedge funds, private equity firms and investment trusts.

Assets Under Management (AUM)
Assets Under Management. The aggregate value of assets managed on behalf of clients. In Wealth Management this includes assets where Schroders provides advisory services but the investment decisions are made by the client. AUM also includes assets held in custody where the client independently makes investment decisions, whether it is through direct contact with Schroders or via the Fusion wealth platform. For Schroder Adveq, the aggregate value of assets managed is based on committed funds by clients. This is changed to the lower of committed funds and net asset value, typically after seven years form the initial investment, in line with the fee basis.

DAP
Deferred Award Plan, see page 4.

ECP
Equity Compensation Plan, see page 4.

EIP
Equity Incentive Plan, see page 5.

EPS
Earnings Per Share.

FCA
Financial Conduct Authority of the United Kingdom.

GMC
Group Management Committee.

LTIP
Long Term Incentive Plan, see page 5.

Material Risk Taker (MRT)
Material Risk Taker, an employee deemed to have a material risk impact under one or more of the regulatory regimes that applies to the Group and its subsidiaries, such as the UCITS Directive or AIFMD.

Net New Business (NNB)
Net New Business, also referred to as net new money invested. New funds from clients less fund withdrawn by clients. This is also described as net inflows (when positive) or net outflows (when negative). New funds and funds withdrawn are calculated on the basis of actual funding provided or withdrawn.

PRA
Prudential Regulation Authority of the United Kingdom.

SIP
Share Incentive Plan, see page 2.

Undertaking for Collective Investment in Transferable Securities Directive (UCITS Directive)
The Undertaking for Collective Investment in Transferable Securities Directive is a European Union regulatory framework that creates a harmonised regime throughout Europe for the management and sale of investment funds.

UCITS / AIF MRT
Employee deemed to be Material Risk Takers under the UCITS Directive or AIFMD.