Evolving our business in a changing world

I am pleased to present another year of good results for Schroders. We have seen assets under management and administration reach a new high of £447.0 billion, in part due to generating net new business from clients of £9.6 billion.

We have continued to strategically invest in the future growth of the business, while still maintaining strong cost discipline, improving the ratio of total costs to net income by three percentage points to 61%. Despite pressure on our revenue margins, we delivered record profit before tax and exceptional items of £800.3 million and profit before tax of £760.2 million.

More information on our financial performance is set out in the business and financial review starting on page 20.

During 2017, we have seen markets remain relatively benign, despite economic and political uncertainty. The year also saw clear challenges facing the asset management industry and specifically active investment managers such as Schroders. Despite the market environment we have attracted £9.6 billion of net new assets that we have invested on behalf of our clients.

As an active manager focused on the long term, I believe that we have a vitally important role to play as guardians of our clients' savings. Our overall purpose is to build their future prosperity by investing responsibly using actively-managed solutions to help them meet their future financials goals. This requires having a talented workforce with the right tools to ensure our active security selection and asset allocation delivers continued outperformance or the desired outcome.

Our clients trust us to deliver sustainable returns through periods of economic prosperity and uncertainty – and it is a responsibility that we take very seriously.

Stewardship

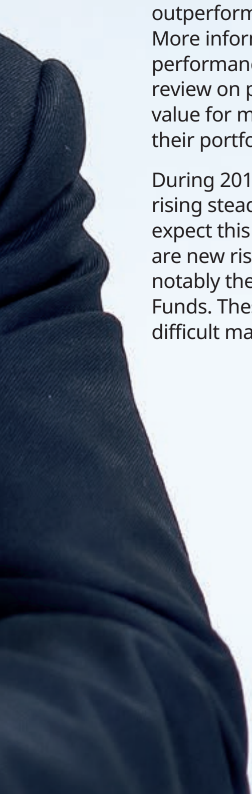
As responsible stewards of capital, we also have an important role to play in the wider economy. We actively allocate capital to companies across the world, promoting growth in all the sectors and regions where we invest.

We engage with companies in which we invest to improve levels of governance and to encourage greater sustainability. This engagement allows us to facilitate improvements in how these companies operate, and how they are governed, in the interests of both our clients and wider society. More information on our approach to sustainable investing can be found from page 30.

Client investment performance

Our key priority remains successfully and consistently delivering positive investment outcomes for our clients. Investment performance remained strong in 2017, with 74% of assets outperforming their stated comparator over a three year period. Over one year, 70% of assets outperformed and over five years, the figure was 84%. More information on how we measure investment performance is set out in the business and financial review on page 23. We strongly believe that we offer value for money for our clients and add real value to their portfolios.

During 2017, stock markets were unusually benign, rising steadily throughout the year. It is right not to expect this to continue. Valuations are high and there are new risks emerging in the structure of markets, notably the very large flows into Exchange Traded Funds. These have not previously been tested in more difficult market conditions.



A changing industry

There are a number of well-publicised challenges that we face as an industry. Pressures on fee margins have not abated and regulatory change and complexity continues to increase. The market share of passive products continues to grow and we are witnessing a number of major asset owners derisking their portfolios, moving away from public markets, or insourcing asset management capabilities.

Against this backdrop of uncertainty, the asset management industry is at a crossroads. We have seen some consolidation, as some of our peers have looked towards large-scale mergers or acquisitions to achieve greater diversification or to drive efficiencies.

We have decided to go in a different direction. We believe in the strength of the Schroders proposition and the ability to adapt our business for the future through investment in the right opportunities, whether supporting organic growth or in targeted acquisitions aligned with our strategic priorities.

Despite the challenges that exist, we see a number of reasons for optimism. There are opportunities which can drive the future growth of our business.

Our strategy is to invest for this growth, adapting and evolving how we run the firm to meet these challenges and embrace the opportunities.

> We believe in the strength of our proposition and the ability to adapt our business for the future

Product strategy

One of the most well-publicised trends in asset management is the rise of passively-managed strategies. We understand that both active and passive products can have a role to play in clients' portfolios. However, we remain a firm believer in the value of active management, where investors are seeking to achieve outperformance or a specific outcome.

We remain committed to focusing on areas where active management demonstrates clear, repeatable advantages. This could be within outcome-oriented strategies, which are not typically designed around an index. It could be in areas of the world where public markets are less efficient, such as within emerging markets. Or it could be in areas in which passive investment strategies cannot efficiently compete, such as illiquid fixed income or private assets.

Changing market dynamics also provide us with the opportunity to take a fresh look at our product range. With a diverse offering of more than 650 funds across 41 investment desks, we support our clients by identifying the right solution for them. To do so, we have restructured our product range around 10 key strategic capabilities, which are set out on page 13.

Regional growth

We have made progress this year in a number of key strategic areas which we believe will drive future growth. From a regional perspective, I have previously highlighted the growth potential in North America and Asia Pacific.

We have seen good underlying traction in growing our business in North America. The partnership with Hartford Funds that we announced in 2016 has been successful, generating net new business of £1.7 billion since the relationship began. We are also seeing good momentum in generating new business from institutional clients. We see more opportunities in the region and it continues to be an area of strategic focus for us.

In Asia Pacific, we have continued to generate good net flows from clients in Japan, one of the largest markets in the world and one of the few in the region where our market share is relatively small. The Chinese market is opening up to foreign investors and represents a very significant opportunity for us. We are expanding our footprint both through our existing relationship with Bank of Communications and through the distribution of wholly-owned products to the Chinese retail market, where we have recently received a private fund management licence.

Private assets and alternatives

Product diversification is one of Schroders' key strengths, as we have broad investment capabilities in a range of asset classes.

We have expanded our capabilities further in private assets, which we consider to be a key area of strategic growth. In 2017 this included the acquisition of Adveq, now rebranded Schroder Adveq, and the creation of a specialist alternatives sales unit.

Schroder Adveq is a Swiss-based private equity firm, with a strong track record of AUM growth and a high quality institutional client base. Private equity displays many of the characteristics that make private assets an attractive asset class, such as the benefits of active investment management, high institutional client demand and excellent client longevity.

This acquisition increased our total AUM in Private Assets and Alternatives to £33.3 billion, building upon existing capabilities including in real estate, infrastructure debt, insurance-linked securities and direct lending.

Technology

We believe that the effective use of leading technology and data processing will be critical to our future success.

Our focus on embedding technology and data analytics across our business allows us to gain insights into client behaviour, build conviction in portfolio positions and drive efficiencies.

Our data insights teams have grown considerably and are embedded within investment teams not just in the UK, but also in a number of our overseas offices. These data scientists use alternative and non-traditional data sets to gain unique insights to complement the work of

Continued on page 15.

Market and opportunities

Continued macro uncertainty

2017 has seen a continuation of many of the themes that have defined recent years. Political instability, low interest rates and high market valuations have again driven headlines across the world.

While political uncertainty did not diminish in 2017, there was a slowdown in the wave of populism that had dominated the previous year. General elections in France and the Netherlands were won by the more centrist parties, despite populist movements. However, we witnessed independence campaigns in Spain, increasing far-right politics in Austria and a German general election that left the incumbent party initially struggling to form a coalition government.

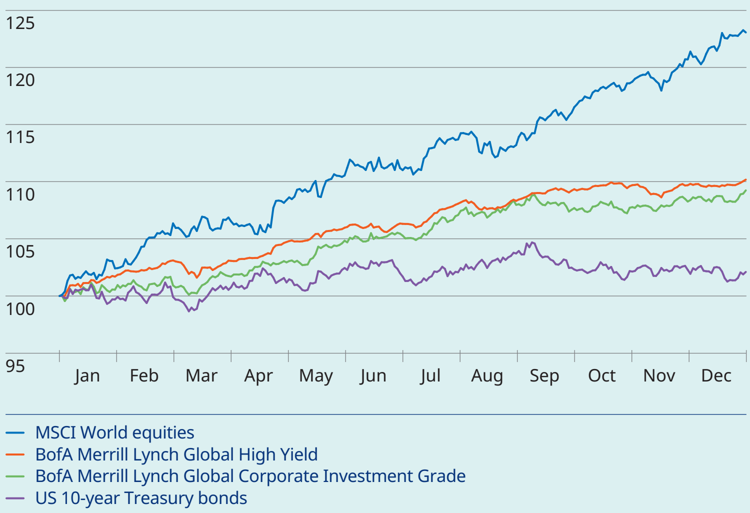
In our home market of the UK, a snap general election failed to deliver a majority government to any political party. The UK's planned exit from the European Union has continued to dominate the political agenda and a great deal of uncertainty remains.

In the US, the administration struggled to push through key legislation, although succeeded in passing a tax reform bill that will reduce the headline corporate tax rate. In Asia Pacific, escalating tensions on the Korean peninsula threatened to destabilise the region.

Interest rates globally remain at historically low levels, although we have seen some central banks take steps towards normalising monetary policy. The Federal Reserve has enacted three interest rate increases through 2017 and the Bank of England raised rates for the first time in a decade. The European Central Bank maintained its Quantitative Easing policy, but tapered purchases throughout the year and is expected to continue to do so in 2018.

Regulation continues to be a key focus for the industry. In June, the UK's Financial Conduct Authority (FCA) published the final report of its Asset Management Market Study and announced a series of measures to improve competition within the industry. In Europe, MiFID II and PRIIPs dominated regulatory discussions. Both were implemented at the start of 2018 and aim to provide greater investor protection and improve transparency.

Asset class returns in 2017*



* Returns in US dollar, rebased to 100 at 31 December 2016.

A good year for risk assets

Despite these macro concerns, our clients have benefited from a benign environment through 2017, with global equity markets advancing against a backdrop of positive economic data. Global growth rates have continued to improve, albeit in many cases these were not matched by wage growth. Inflation rates in most developed economies remain relatively low and employment data has generally been strong.

Within global equity markets, all of the major indices provided positive returns for the year. Emerging markets led the way with a near 40% return in US dollar terms. European and US indices also performed well, although the latter fell behind when taking the depreciation of the US dollar into account.

The positive environment for risk assets was also beneficial for credit strategies, with both global high yield and investment grade indices providing strong positive returns.

Although equity markets were largely unaffected by macro and geopolitical concerns, this was not generally the same in fixed income markets, particularly in government debt. As European political risk grew at the start of the year, yields rose in French and Italian government bonds ahead of elections. However, both ended the year positively as political concerns subsided.

There was some volatility within major currencies at the beginning of the year but trends became clear through the second quarter. The US dollar weakened against most major currencies throughout the second half, when measured using effective exchange rates, while the euro strengthened. Sterling fluctuated throughout 2017 but ended the year having strengthened slightly due to some positive progress in Brexit negotiations.

Our strategy for changing client demand

Although markets have largely dealt well with macro concerns, uncertainty remains and it is possible that the investment environment will become more challenging.

Against this backdrop, many of our clients face difficulties in deciding where to invest. Increasingly, they are looking to us to provide more than just component building blocks for their portfolios. Instead, they require complete solutions that help them achieve their financial goals.

Our solutions are designed to take advantage of positive returns but to also provide protection in more challenging environments, consistently delivering specific outcomes.

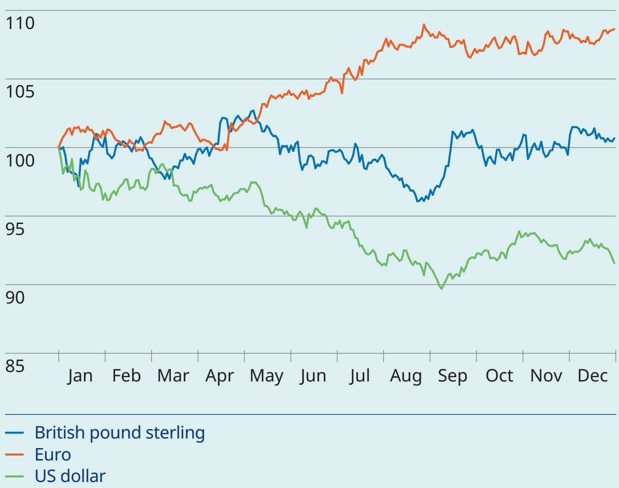
We have adapted our business towards a more client-centric proposition. In 2016, we created an independent Product division and a Solutions team who focus on institutional clients' objectives across asset classes.

We continue to focus on responding to changing client demands and in 2017 we reshaped the way we look at our product range. We have restructured our product offering to provide a more complete, solutions-based view of our range. This new approach moves away from a traditional asset class view and instead focuses on delivering specific outcomes designed to meet a broad range of client needs.

We have assessed the strategies run by our 41 investment teams and identified 10 key themes. These strategic capabilities are centred on areas of significant or growing client demand, existing investment strength and persistent demand for active management.

Our strategic capabilities are listed below and cover a wide range of areas, from delivering a consistent income to providing for retirement or focusing on sustainability and strong governance.

Currency returns in 2017*



* Effective exchange rate, based on a basket of major currencies, rebased to 100 at 31 December 2016.

Our ten strategic capabilities

- Absolute Return
- Alpha Equity
- Credit
- Emerging Markets
- Income
- Multi-Asset Solutions
- Private Assets
- Retirement
- Solutions
- Sustainability

Read more about our strategic capabilities in the glossary on page 170 and at schroders.com/capabilities.

Our strategy for 2017 and beyond

Our strategy is focused on sustainable, profitable growth over the long term. This means identifying and investing behind opportunities for future growth, while retaining focus on cost discipline with a continual drive for improved efficiency.

Our priorities	Develop and maintain long-term client partnerships	Offer a range of innovative products	Consistently deliver outcomes for clients
Why it's important	We focus on helping our clients achieve their financial goals and building their future prosperity. Building close partnerships with our clients and intermediaries enables us to gain a deeper understanding of our clients' financial needs. This in-depth understanding allows us to continue to develop solutions, leading to greater client longevity and increased new business opportunities. We deliver the whole of the firm to our clients, utilising the most relevant capabilities or products to provide a solution that meets their goals. We also continually look to develop new relationships globally, across regions and sales channels.	Innovative product design is crucial to our continued future growth. An increasing number of our clients are looking for products that seek to provide a financial outcome, which could be a level of income, an absolute return or derisking of their financial positions such as an employer pension obligation. We are continually looking to expand our offering and diversify into new areas of investment expertise.	As an active manager, we are committed to delivering consistent, repeatable outcomes for our clients. Whilst many of our strategies seek to outperform a stated benchmark or peer group, client demand is increasing for outcome-oriented solutions. Sustained outperformance or achieving a predefined outcome increases value for our clients, builds trust and is a driver of new business.
Key performance indicators	– Net new business	– Net new business	– Client investment performance – Net new business
Progress through 2017	– Total net new business of £9.6 billion – In North America, growing momentum through our strategic relationship with Hartford Funds – In Wealth Management, acquisitions of the wealth management business of C. Hoare & Co. and other acquisitions including within Benchmark Capital – Completed acquisition of Adveq, expanding our capabilities in private assets and alternatives	– Restructured our product range around 10 distinct strategic capabilities. More details on our capabilities can be found on page 13 – Continued expansion into private assets through the acquisition and integration of Adveq – Seed and co-investment capital at a record level of £392 million – Launched new strategically important products including absolute return, income and inflation-linked strategies	– 74% of our assets outperformed their stated comparator over three years. More details on our performance reporting can be found on page 23 – Integrated Solutions team, constructing bespoke solutions to meet institutional clients' financial needs
Growth opportunities	– Seek to further increase client longevity – Continue to attract and retain business with clients, specifically in strategically important growth areas, such as North America, Japan and China	– Further develop our strategic capabilities approach – Maintain a commitment to seeding new products – Continue expansion into private assets	– Maintain high levels of outperformance – Continue to provide value for money and build clients' future prosperity
Key risks	1 2 6 7 8 14 17	1 2 3 5 6 7 8 9 14	1 2 3 6 7

Read more about how our strategy mitigates these risks from page 34.

Develop leading technology	Develop and retain a diverse pool of talent
Active asset management is inherently about processing and analysing data to achieve outperformance or desired outcomes. It is critical to our ongoing success that we have leading technology across the firm. Better use of technology can be employed to innovate and automate while improving productivity and efficiency. Our focus on investing back into the business comes with a strict cost discipline and a continual effort to improve efficiency.	Our ongoing success is driven by our people. Developing and retaining a diverse and talented workforce is key to the stability of our business and the delivery of all aspects of our business model. Diversity of thought is part of our heritage and it is one of the reasons we are able to attract high quality talent. We invest heavily in our people, offering opportunities to grow their knowledge, skills and capabilities. In order for them to succeed we need to provide them with a working environment that supports productivity, innovative thinking and collaboration.
– Ratio of total costs to net income	– Retention of key talent

– Invested in technology solutions throughout the business including:
  – Expansion of data insights teams
  – Ongoing implementation of new front office technology platforms
  – Upgrading Client Relationship Management system
– Maintained cost discipline to drive efficiency, improving ratio of total costs to net income from 64% to 61%
	– 43% of our employees have been with us for more than six years
	– Female representation in senior management roles ended the year at 29%
	– 94% of employees proud to be associated with Schroders
	– 94% retention rate of highly rated employees

– Continue to invest in technology across the firm – Invest in further automation and robotics – Maintain focus on cost discipline through the ratio of total costs to net income	– Maintain high rate of retention of highly rated employees – Target 33% of female representation in senior management roles by 2019 – Move to new London-based headquarters
3 5 6 7 17 19	6 7 14 17 18 20

Read more within the key performance indicator section and Directors' remuneration report from pages 16 and 62 respectively.

our fund managers and analysts. We are also using data and analytics to enhance our interactions with clients. Our client relationship teams are leveraging behavioural analytics to provide insights into client behaviour, while real-time market intelligence helps us to build a clearer picture of changing client demand.

Effective use of technology can also greatly increase efficiency and productivity, vital to our ongoing success in an environment of declining revenue margins. Increased use of automation and robotics frees up resources from straightforward tasks. This allows our people to focus on serving clients and growing the business.

Wealth Management

Wealth Management is another area that we see driving future growth and making a larger contribution to the overall group. We have invested in growing the business, both organically and through selective acquisitions, and we are starting to see the benefits of this come through in the 2017 results.

We acquired the discretionary assets of around 1,800 clients from C. Hoare & Co. in February 2017. We have also benefited from our 2016 acquisition of Benchmark Capital, which allows us to participate further along the value chain and get closer to the end consumer in the UK. It has also allowed us to increase the IFA network through selective acquisitions. These have generated strong revenue and net new business growth in the year.

People

As always, our achievements have been realised through our talented and diverse employees, whose integrity and passion are key to our ongoing success. We have a strong and distinctive culture which is diverse in both approach and outlook.

We have worked throughout the year to protect and build upon this culture, promoting diversity and a collaborative working environment for all of our people. We were one of the first signatories of the Women in Finance Charter. We achieved our initial target of 30% women within senior management during the first quarter of 2017, though at year end the figure had fallen back to 29% as a result of minor restructurings within the firm. We are now targeting 33% by the end of 2019. More details on this can be found on page 28.

Outlook

Looking ahead, our core focus will remain on helping our clients to achieve their financial goals and build their future prosperity.

We will continue to invest for long-term growth, whether in allocating more resources to leverage opportunities created by the latest technology, expanding our geographical footprint or further diversifying our product offering.

Although there are challenges facing the industry, we believe that there are opportunities for growth and that our diversified business model is ideally placed to take advantage of these. I look forward to leading our continued success.

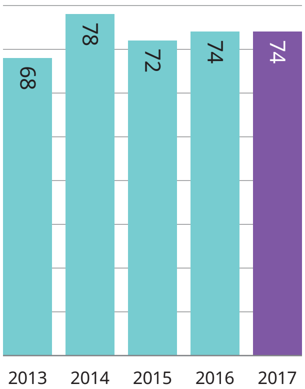
Peter Harrison
Group Chief Executive

Key performance indicators

Tracking our progress

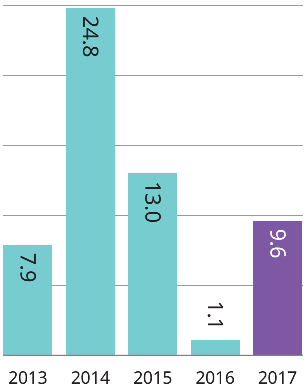
Client investment performance (%)

74%



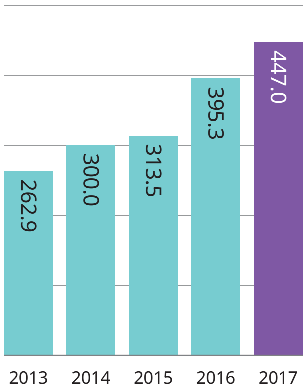
Net new business (£bn)

£9.6bn



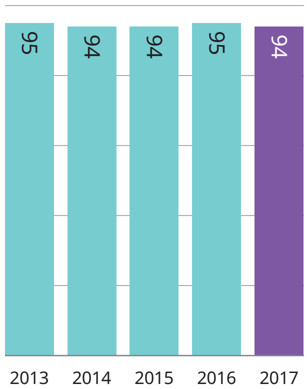
Assets under management and administration (£bn)

£447.0bn



Retention of key talent (%)

94%



What we measure

We target at least 60% of our AUM to outperform their stated comparator over rolling three-year periods.

We seek to generate positive net new business across the business.

We aim to grow AUMA over time in excess of market growth, through positive investment outperformance and net new business. As a sterling denominated reporter, currency movements may also impact asset levels.

Developing and retaining a diverse pool of talent is key to our ongoing success. We measure retention of those employees who have been rated as either outstanding or exceeds expectations in their annual performance review.

How we performed

Investment performance over a three year period continued to be strong in 2017, with 74% of assets outperforming their stated comparator. We have been above our target for each of the last five years.

Five year investment outperformance was 84% and the one year figure was 70%.

For more details on how we calculate investment performance, please see pages 23 and 168.

We generated net new business of £9.6 billion in 2017, gaining market share with inflows across Asset Management and Wealth Management.

We generated £3.4 billion of net inflows from clients in the Intermediary channel, with strong demand for branded funds more than offsetting net outflows from sub-advised mandates.

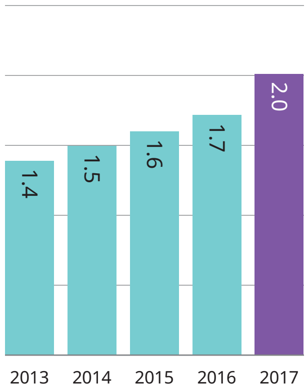
The Institutional channel generated net new business of £4.2 billion and there were net inflows of £2.0 billion in Wealth Management.

AUMA increased by 13% in 2017 to £447.0 billion, driven by net new business, positive investment returns and currency movements and acquisitions.

Our retention of highly-rated employees has consistently been over 90%. This represents a committed and engaged workforce which is aligned with Schroders' values.

Net operating revenue (£bn)

£2.0bn

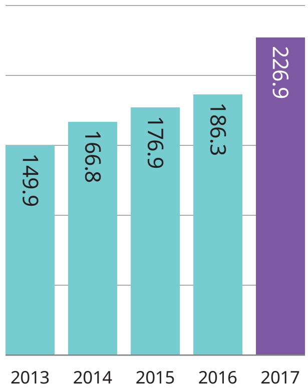


Ratio of total costs to net income* (%)

61%

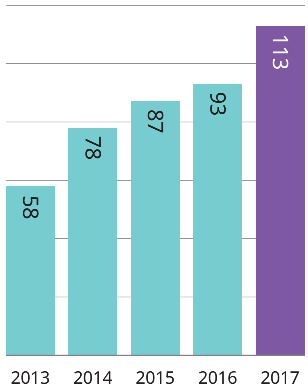
Basic earnings per share* (p)

226.9p



Dividend per share (p)

113p



Net operating revenue is primarily revenues generated from assets under management less cost of sales. We aim to grow net operating revenue over time as assets under management increase.

We target a 65% ratio of total costs to net income, recognising that in weaker markets the ratio may be higher than our long-term target.

We aim to grow earnings per share consistently, recognising the potential impact of market volatility on results in the short term.

Our policy is to increase dividends progressively in line with the trend in profitability and to maintain a payout ratio of approximately 50%. For more information, see page 27.

Net operating revenue has consistently grown year on year as we have seen increases in assets under management. In 2017, we saw a 17% increase in net operating revenue to a record level of £2.0 billion.

In 2017, this ratio was again better than our target at 61%.

In 2017, basic earnings per share before exceptional items increased by 22% to 226.9 pence.

The Board is recommending a final dividend of 79 pence per share, bringing the total dividend for the year to 113 pence per share, an increase of 22%. This represents a payout ratio of 50%.

We have made changes to our KPIs from the 2016 Annual Report and Accounts.

Net operating revenue margin has been replaced by net operating revenue. Our net operating revenue margin has been declining over recent years, primarily due to the success of our strategy of growing our Fixed Income and Multi-asset capabilities. These typically have a lower net operating revenue margin than our existing assets under management but increased scale has contributed to greater absolute net operating revenue, which is a more appropriate measure of performance.

Total compensation ratio has been replaced by retention of key talent. Compensation costs are around 70% of our total cost base so the compensation ratio is already reflected in the ratio of total costs to net income, which remains a KPI. A key part of our strategy is developing and retaining a diverse pool of talent so we have included the new KPI to reflect this.

* Before exceptional items.