Schroders Annual Results 2023

Transcript

Peter Harrison (Group Chief Executive):

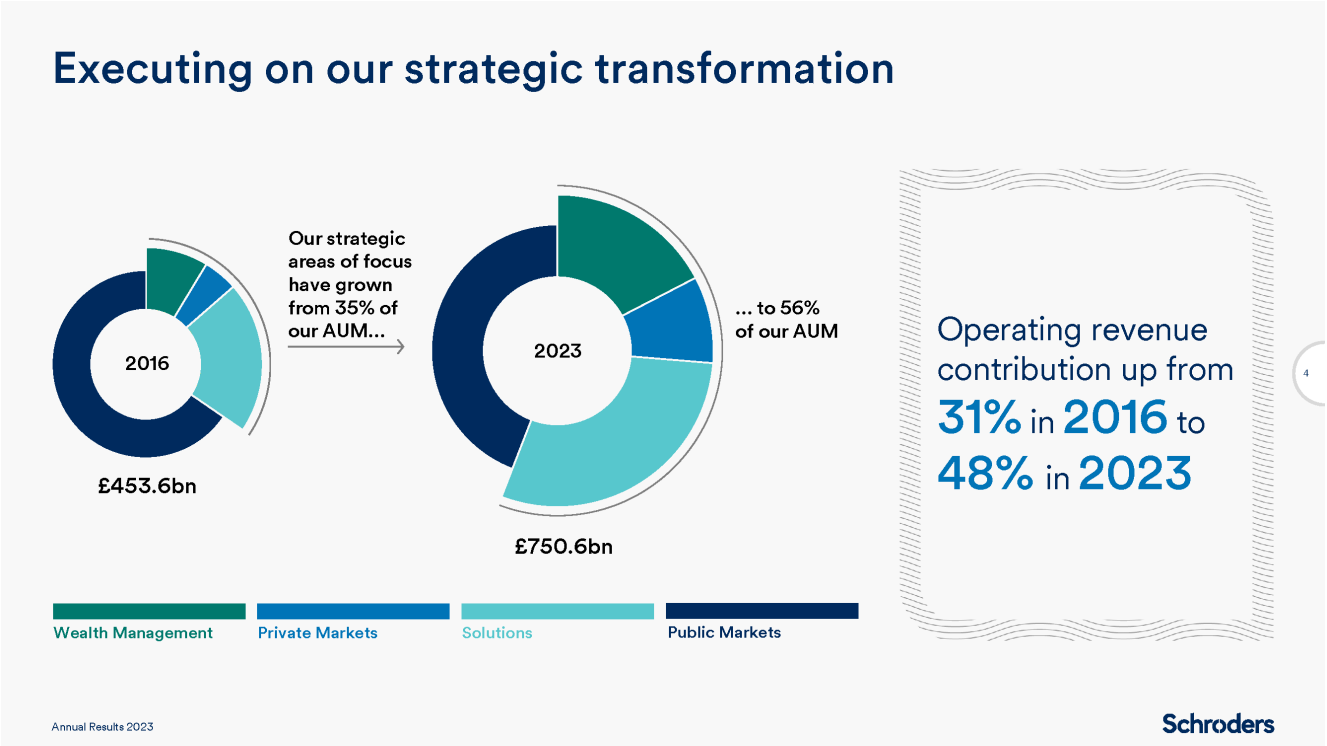
Morning, everybody. Welcome to the Schroders 2023 financial results. We're going to follow the same format as normal, which will be familiar to all of you, but I'll kick off and then Richard will talk about financials, and then we'll do Q&A, if I may. Some of you won't know Richard Oldfield. Let me just introduce him quickly. Richard joined us in October, took over from Richard Keers, obviously been with us for ten years as CFO and retired. Richard joined us from PwC, having previously been a partner for 20 years, Head of the financial services practice. But I think, much more interestingly, was on the global board of PwC and was responsible for their client group globally. So not just a PwC, man. So, Richard, it's good, fantastic to be working with you.

Strategic execution delivering positive flows despite industry headwinds

Let me get straight into the details. It's not a surprise to anybody in here that the environment last year was not straightforward. And plenty's been said about that. We were focused on three really important things. The first was delivering the strategic pivot that we've talked about, and the fact that we've ended up the period with 56% of our assets in those areas of fast flowing water that we've talked about really,

really key. The second was ensuring that we delivered growth, that the execution on those businesses was strong. And you'll see some of the statistics we get into it. But critically, 23 billion of new assets, up 92% in those areas of fast flowing water. But three, and really importantly, coming out of 22, and the inflation environment that was there, that we delivered on costs, and we've delivered a flat cost number year over year, which, when we talk about it, Richard will unpack it in detail, was a really important achievement.

Executing on our strategic transformation



So let's get straight on to strategy. And this is a chart which will be familiar to you. But go back to 2016, when we first set out this strategy, 31% of our business was in these areas of potentially fast flowing water, but none of them were growing. Today, that number is 56%. 48% of our revenues are now in these areas. But most importantly, they're growing strongly and in wealth, in private markets and solutions. And I want to talk more about that. But that has enabled us to overcome the headwinds which have been talked about so much in the rest of the industry.

Resilient top line performance and strong cost discipline

Resilient top line performance and strong cost discipline

Operating profit impacted by FX and share of profits from associates and JVs

	2023	2022
Net operating revenue (£m)	**2,334.4**	2,361.4
Net operating income (£m)	**2,419.0**	2,475.5
Operating expenses (£m)	**(1,758.0)**	(1,752.5)
Operating profit (£m)	**661.0**	723.0
AUM (£bn)	**750.6**	737.5
Net new business excl. joint ventures and associates (£bn)	**9.7**	(1.6)
Basic operating EPS (pence)	**32.5**	37.4
Dividend per share (pence)	**21.5**	21.5

Operating profit of **£661.0m**

AUM up despite FX headwind of **£25.8bn**

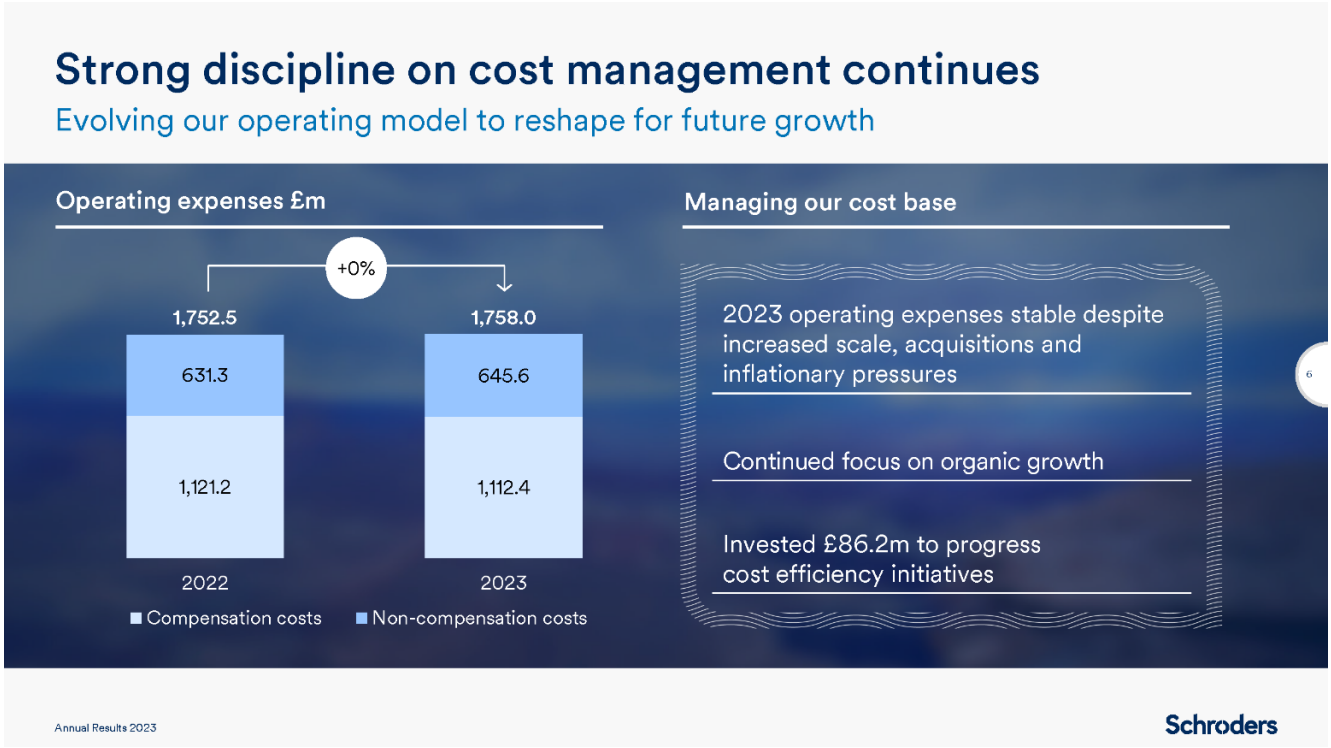
Strategic growth areas generated NNB of **£23.4bn**, nearly double 2022

Annual Results 2023

Schroders

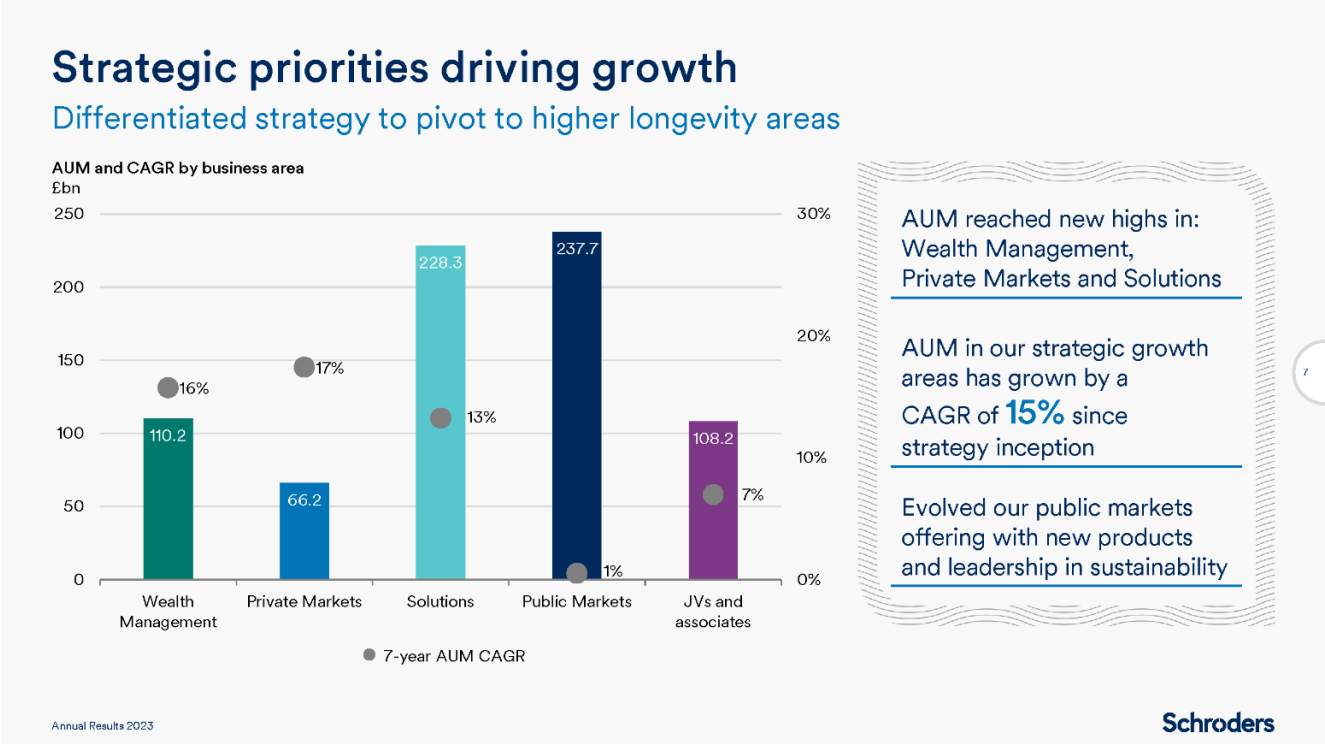
I'll just go on to the numbers at a headline level. First of all, I should say, these are the numbers off the face of the P&L. They're not adjusted numbers. Revenues were down 1%. That is, despite average assets under management being down 4% during the year. Because if, you know, we came into the year with markets lower, so average assets down four, but revenues down just one. I've said costs were flat. Operating profit came in at £661 million. That was due in part to the contribution from our Asian JVs being down. And you'll be very well aware of the risk off environment in Asia. Assets under management up 2% and that's after a 3% FX headwind. So 5% ex-FX. But as I said, most importantly, £9.7 billion of net new assets. And it's not lost on us that despite not having passive in the group not running money market funds, that is an overall growth number.

Strong discipline on cost management continues



Let me come on to costs. We were absolutely delighted to hold costs flat. I think that was a really important thing in the environment we were in coming out of 2022 and we saw all the pressure on salary costs around in every part of the world. We had the full year impact of acquisitions to deal with and we had a number of major growth initiatives going on in private markets, in growing wealth, in growing China. And there was some FX. So despite all of those things, we were absolutely focused that we had to hold costs flat. And to do that we took a charge, and we finished doing, executing, implementing that £86 million. Richard will talk more about it, but that sets us up well for this year because we come into the year assets are higher and costs have been held flat.

Strategic priorities driving growth

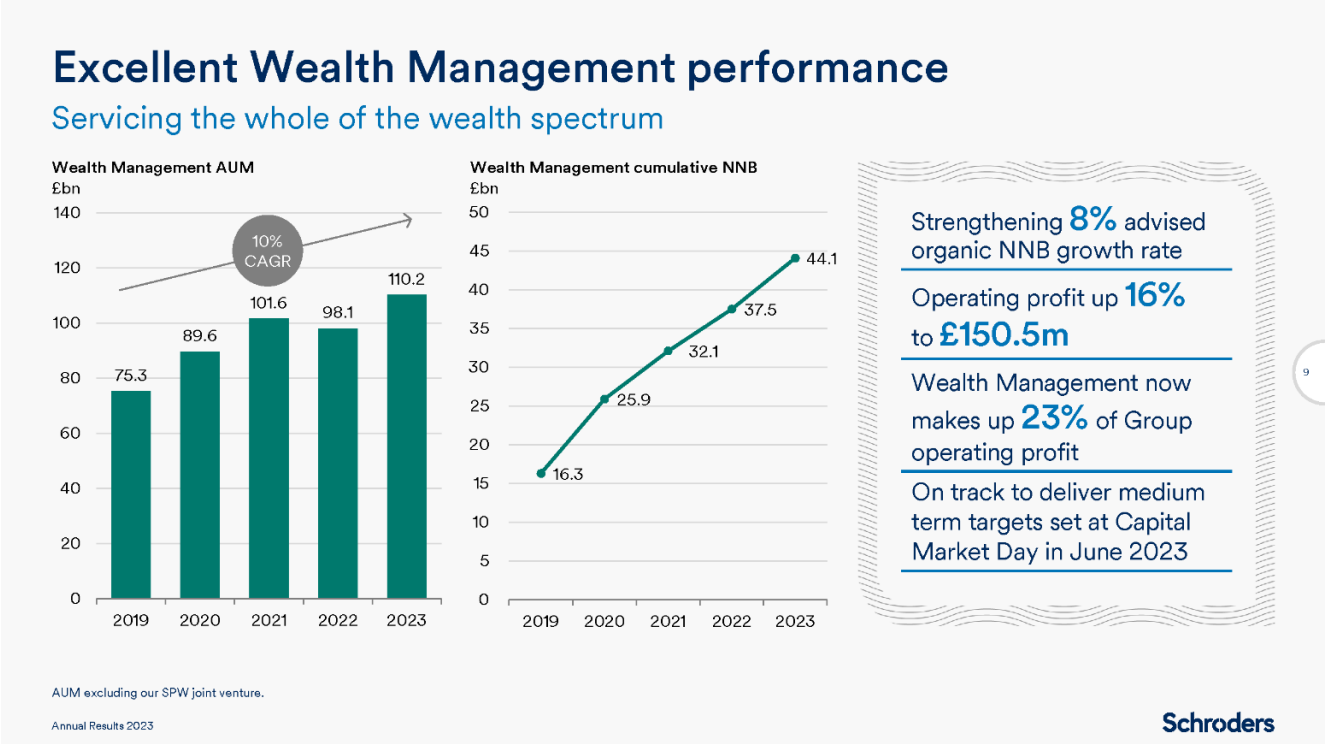


So let's unpack this further. When we set the strategy out, we talked about these areas of fast flowing water, and you can see the compound annual growth rates we've achieved in each of those areas. Solutions up 13% compound over seven years, private markets up 17% compound and wealth management up 16% compound public up one, primarily because of our investment in new products and particularly in sustainability, which I'll talk more about in a moment. Importantly, I think the compounding impact of this is really important because as those businesses get ever larger, they dominate and change the quality of the business over time.

Continued good outcomes for clients

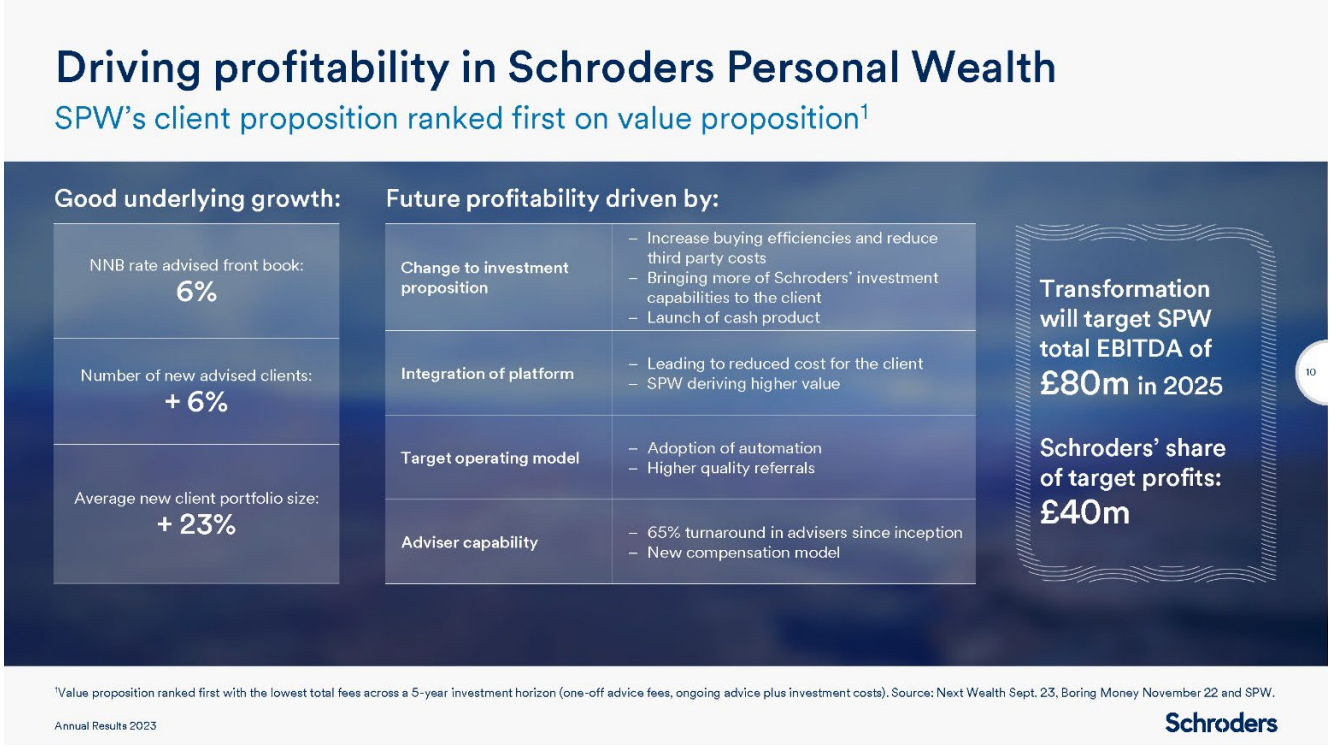
The other key thing we talked about was having more sticky assets. So I'm really pleased again that this year we've improved the longevity of our assets further. We managed to deliver gross sales flat year over year, which in a market where gross sales were generally down a lot, we kept gross sales flat. But increased longevity is obviously really important in driving net redemptions. Performance obviously essential one year performance, 56% five-year performance, three-year performance, 30%, 60% rather, and five-year performance, 77%. And importantly, in the areas that I think are really key to driving future growth: equities at 80%, fixed income at 89% and wealth at 81%. So doing a good job for clients, both in keeping them for longer, but also delivering strong investment performance. I'll now just go through each of those areas in more detail and starting with wealth management.

Excellent Wealth Management performance



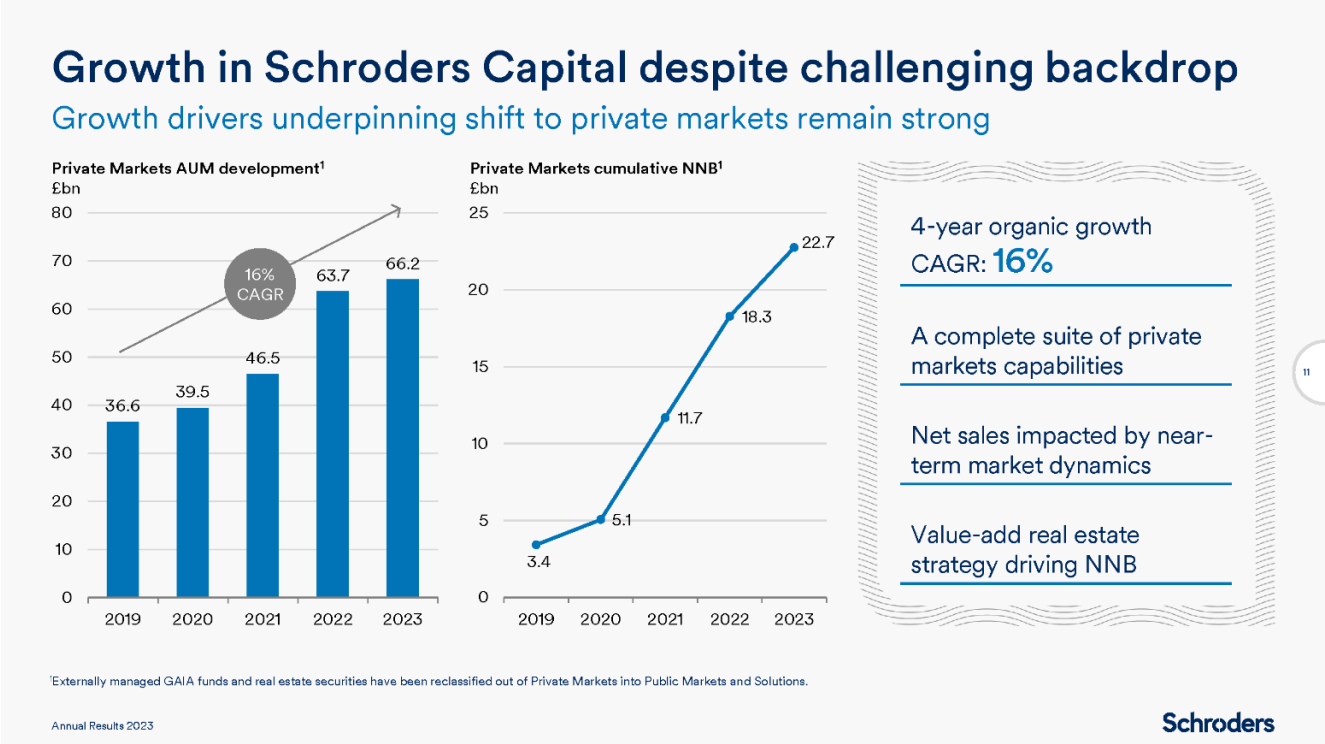
The wealth management business, I think, had an excellent period. I think it's now 23% of group profits. We grew advised assets at 8%. It won't be lost on you that advised asset growth generally fell last year across the industry. We actually accelerated our advised asset growth, in part because of the build out of our regional network. Profits are up 16% and the restructuring that we talked to you about, the capital Markets Day last June is very much on track. So moving the service centre from Zurich to Horsham is on track and being delivered, and obviously part of the restructuring charge that you saw. So we're very comfortable about the commitments we gave you last time round.

Driving profitability in Schroders Personal Wealth



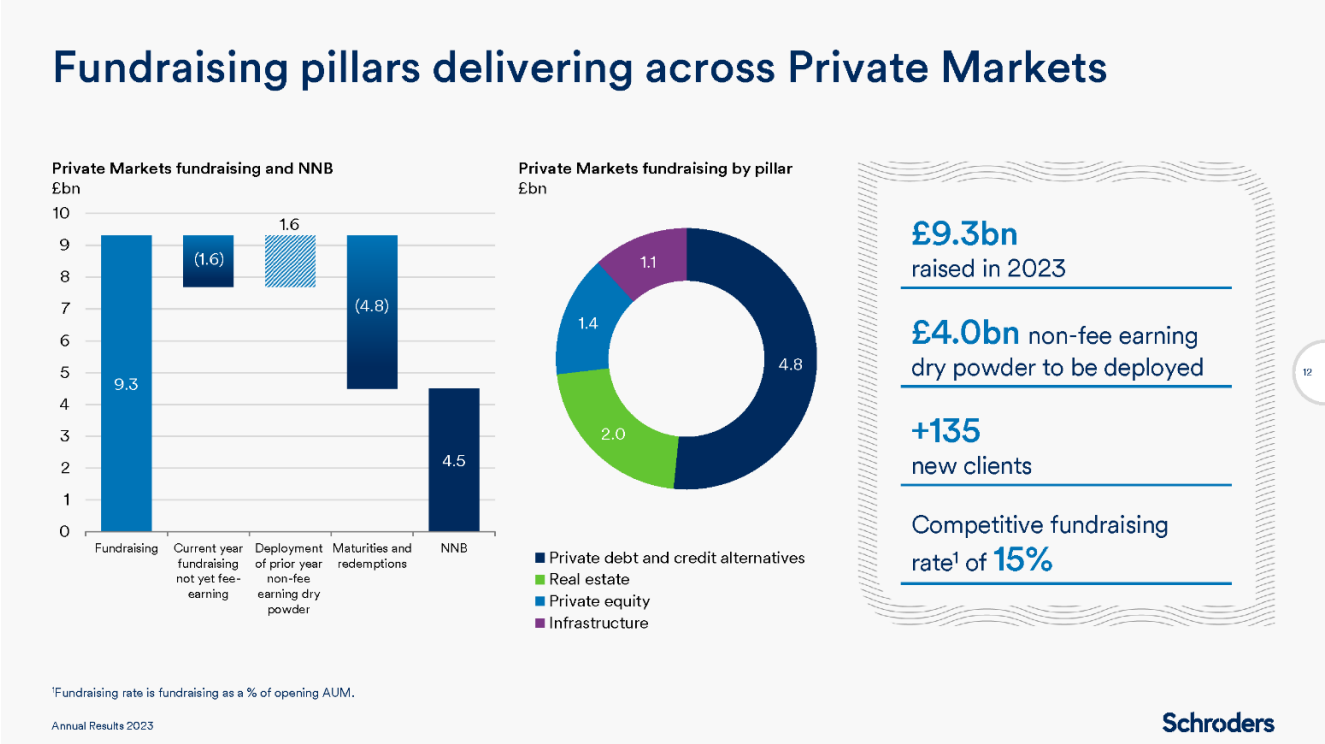
Schroders Personal Wealth normally gets quite a lot of attention, so let me just head straight there. We believe that this is now one of the most compelling value propositions in the market for clients. The time when value propositions are becoming really front and centre. We saw 6% advised growth on the front book, we saw 6% growth in clients, and we saw 23% growth in the size of assets that we're taking in from clients. More importantly, we've now finished the reshaping of the business model and we've got all the plans for that are done. Regulatory positions well advanced. That reshaping of the business that's been planned and is underway gives us very clear line of sight of an £80 million EBITDA in 2025. It's clearly a 50:50 joint venture, so our share of that would be £40 million of EBITDA. So that then becomes quite a valuable business and a significant increase over the contribution this year.

Growth in Schroders Capital despite challenging backdrop



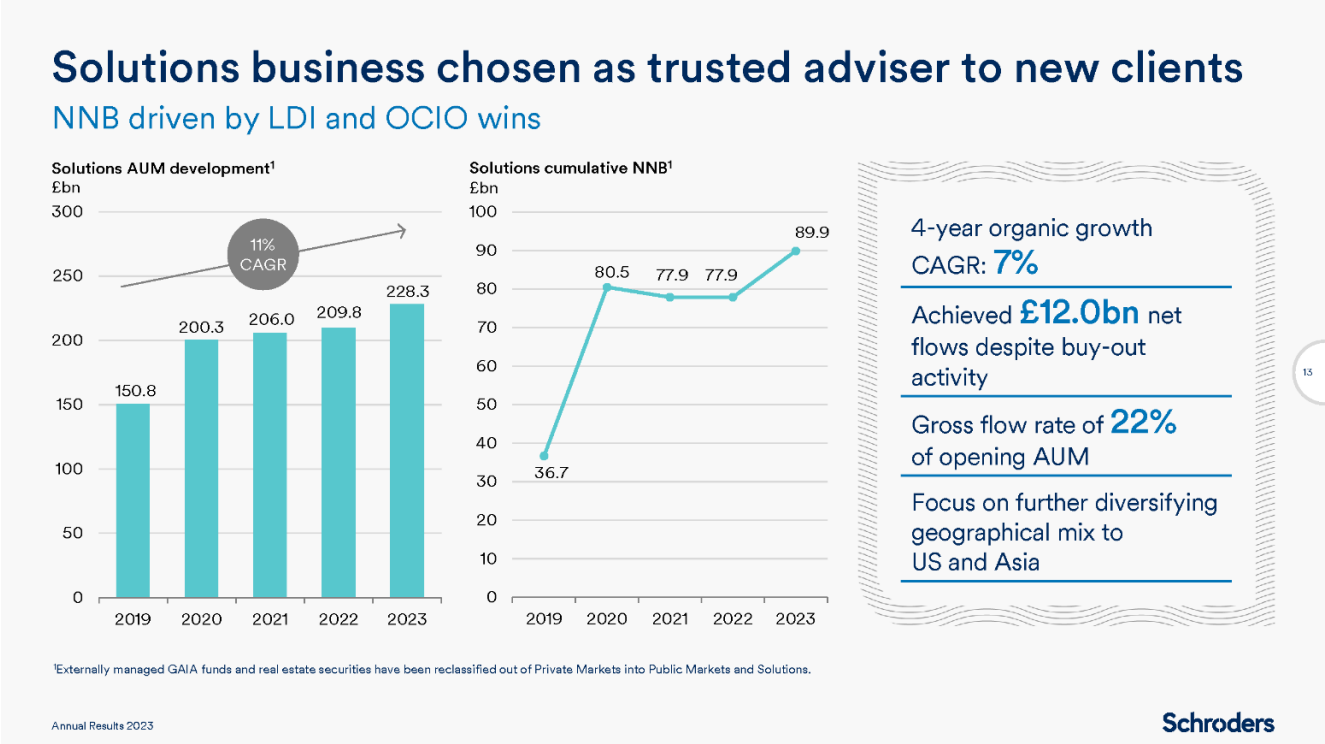
Turning to Schroders Capital, our private markets business, we now have all four pillars of this in real estate, infrastructure, private equity, and private debt. That's really valuable because we can then have the cross-cutting solutions conversation with clients, because we can service each of those areas. We've delivered 16% compound organic growth since 2019. And the formation of our debt pillar, which is a $30 billion debt pillar, I think is very timely, given the environment we're seeing. With private debt markets starting to really come into focus. Fundraising was undoubtedly more challenged across the market. So we achieved a £4.5 million billion net new business target, which is below the £7 to £10 billion, we said, but we're standing by that target. We believe across the cycle this business is very capable of delivering that.

Fundraising pillars delivering across Private Markets



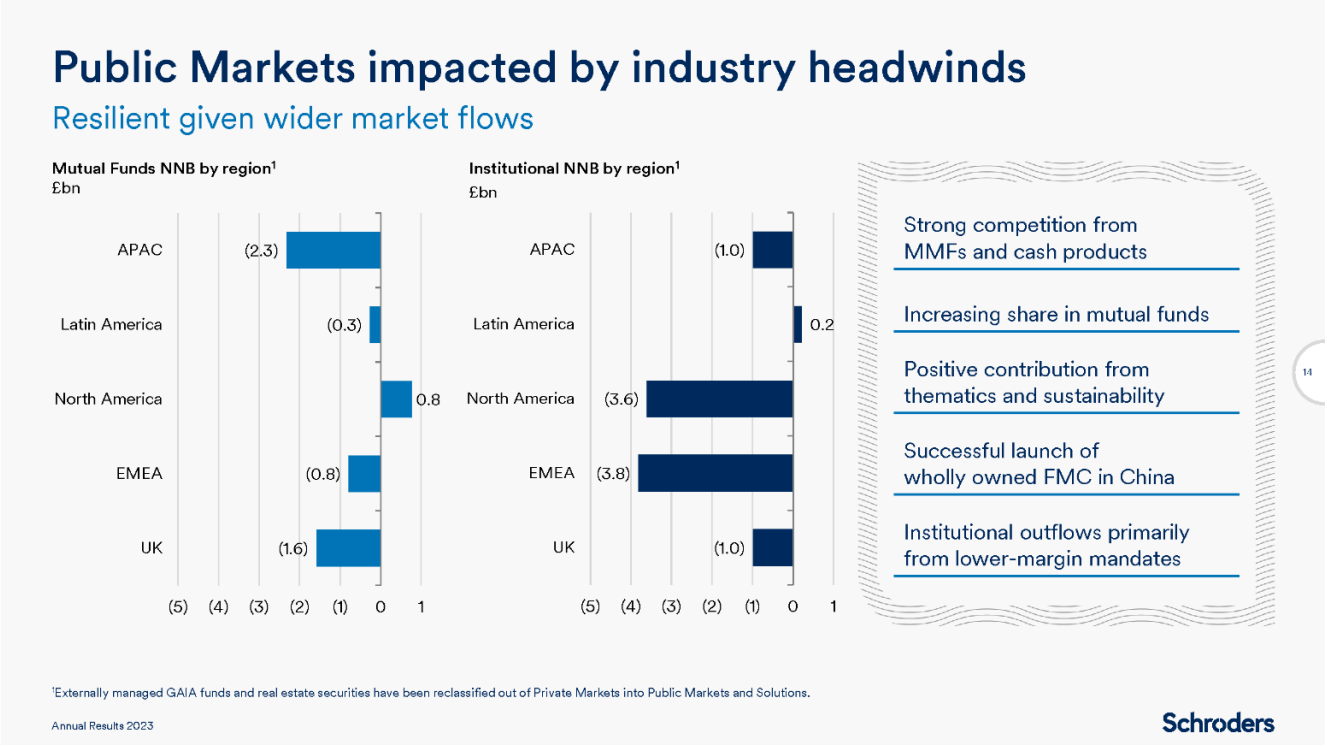
And interestingly, as a part of the proof of that, we raised £9.3 billion of assets last year. £9.3 billion is a 15% asset raising rate, which if you look at all of our quoted peers, is best in class across those areas. So I think the asset raising is going well. I think as a proof statement, and this is really important from our internal perspective, is we attracted 135 new clients, we did 140 or so last year, and those clients are clients which were in our traditional world and went cross selling into private markets into those clients. And I think it's demonstrating that that model can work, that you can have these things, two things under the same roof, and be able to move those relationships more broadly. And I think proving that distribution model has been a really important confidence boost for the future in terms of knowing that this idea of having public and private sitting alongside each other is helpful. We're also confident for the future. We've got some really interesting partnership conversations underway. We've got some great new funds launched. We obviously early in launching LTAFs, which I think will be very helpful given the move in the UK, push more DC money into long term assets and we built out Greencoat across the US and Europe and are out busy fundraising for that. So a lot of progress going on in private markets, a lot of organic investment, but I think gives us future confidence.

Solutions business chosen as trusted adviser to new clients



Solutions has been obviously impacted by rising bond yields. Pension fund buyout has attracted a great deal of attention. We've actually achieved a 7% compound growth rate through that period, and we've actually achieved growth this year despite all the press about the large number of DB funds going to buyout. And that was in part- and this-time last year I was talking about the strong reputation that we'd been able to earn through the LDI crisis and the fact that our pipes worked. We were able to deliver collateral, we were in a good position. We saw that in the 22% gross sales fundraising. So despite the buyout pressure, the growth of our OCIO and fiduciary business came through, hopefully with further growth, £12 billion of new assets.

Public Markets impacted by industry headwinds



Public markets. There are undoubted headwinds and I think we need to take this in two parts. First, the mutual fund world, where we saw outflows of £4.2 billion. Now I see mutual funds were predominantly affected by a shift into cash. And I'll say in a moment from an outlook perspective, we're seeing that start to reverse. What I would say in mutual funds is you will see from all the industry statistics that we took a good chunk of market share last year. So where we've got mutual funds in their segments tend to be increasing share because the outflows elsewhere were larger. So I think that gives me more confidence as money recycles back from cash will participate. It was also really pleasing to see Hartford delivering positive inflows, which I think was in the top 4% of all US mutual fund ranges. So that model is working. Institutional is more a story of idiosyncratic issues. Particularly we had one large client switch into passive in Europe and in the US with a sub advisory relationship where we're with another manager and the other managers perform poorly, damaging the overall performance of the fund, which is frustrating from our perspective. But I think that us thing I can see reversing over time, but the passive pressure in Europe, I think is clearly there. Clearly here, alpha is critical over time. So the strong five-year performance is going to be important. I should also say that sustainability is key here. And I think what I would observe is there's quite a lot of white space emerging and you've seen various announcements from peers about retreating from this space. We're very clear and committed, we've invested very significantly in our sustainability capabilities and that will stand us in good stead either in the charity world, mainstream institutions, and in the US, on the coasts. So plenty of activity there.

Moving forward

Before I hand over to Richard to give you a more detailed rundown, there's, I think, three areas that give me confidence for the future. And the first is I've mentioned on sustainability. We are receiving the awards that you would expect in each of the areas. CDP is probably the industry benchmark of quality and we're in the top 2% of all companies reporting there. That for me, and having a science-based target ourselves, that gives us the authenticity to be across it with companies and running our own business to the standards we would hope others do. On our employee value proposition, I think it's critical that we can retain talent and we can win talent. We all know what happens if people leave; we lose a lot. But our employee value proposition, I mean, the easiest litmus test of that, to my mind, is when you get the Employee Choice award for Glassdoor, you know your employee value proposition is right, because an RFP does not buy you, that employees have to vote for it. So that was helpful. And then probably most importantly, actually going forward is the opportunities in technology and maybe come back to it later. But I see significant changes going on in terms of how people will hold their assets, but also well-rehearsed, significant AI opportunities. And we've got a number of significant use cases identified up and running, made a significant investment in talent. We've got a quarter of our employees using our own genie and have been for 9, 10 months. I think that competence and ability to be at the front of that is going to be really valuable. So with that, I'm going to hand over to Richard and I'll come back for outlook. Richard.

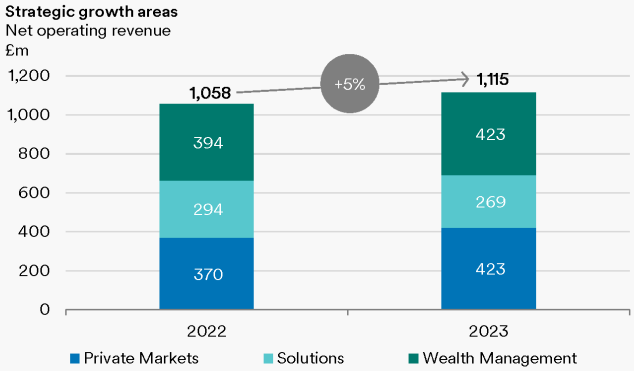
Richard Oldfield (Chief Financial Officer):

Thanks, Peter. Thanks, Peter. I just want to say good morning, everybody. For those who I haven't met, I'm looking forward to fixing that over the next few weeks. It dawned on me this morning, of course, I'm delighted to be here with my first set of results, but I'm probably the only person in the room for whom this is their first set of Schroders results. So I feel it's slightly a bit of a disadvantage. Before I jump into the numbers, I thought I'd tell you what excites me about Schroders and frankly, why I joined. And it's the conviction of people all the way across this organisation, not just Peter, who you hear from twice a year, but people all the way across this organisation, in the strategy. And that is despite every day feeling and reading the bad news about the industry. And that gives us a massive opportunity. We've anticipated the structural changes the industry is facing. We've repositioned the business, the balance sheet is good. And importantly, the leadership team are laser focused on execution. And frankly, as a new CFO, there's not really a better platform that I could have inherited. So I've got to thank Richard Keers for giving me that and all the leadership team.

Results summary

Results summary

Resilient results



	2023	2022
Net operating revenue (£m)	**2,334.4**	2,361.4
Net operating income (£m)	**2,419.0**	2,475.5
Operating expenses (£m)	**(1,758.0)**	(1,752.5)
Operating profit (£m)	**661.0**	723.0
Restructuring costs (£m)	**(86.2)**	-
Basic EPS (pence)	**24.6**	30.4
Dividend per share (pence)	**21.5**	21.5

Net new business[1] during the year of £9.7bn (2022: -£1.6bn)

Profit before restructuring costs £573.8m (2022: 586.9m)

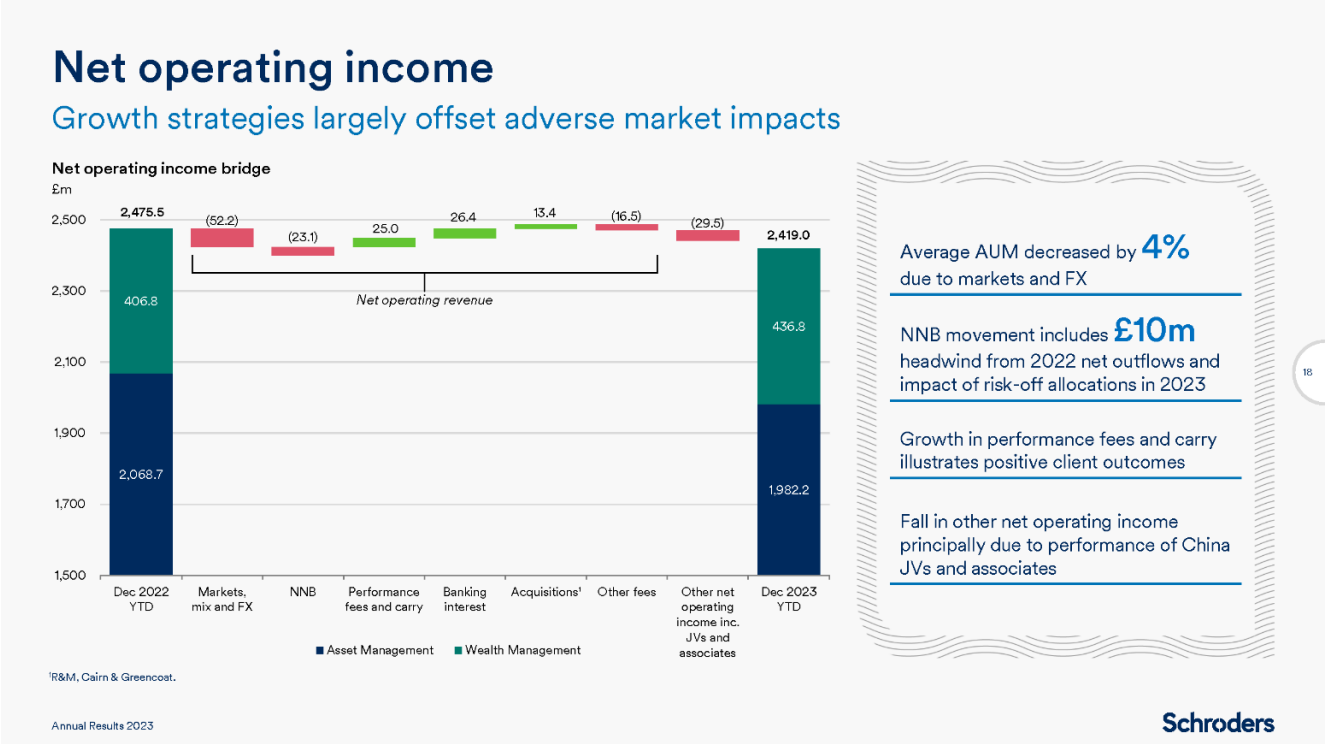
[1]Excluding associates and JVs.

Annual Results 2023

Schroders

But let's get into the numbers. And I wanted to double down on two things Peter said. The first thing is that not only did we have about 323 billion of inflows into our strategic areas of private assets, solutions, and wealth management, but we actually achieved a 5% increase in our operating revenues. For me, they are two great reference points to prove that our pivot towards higher growth and longer longevity businesses is actually working. The second thing is operating profit, which Peter told you was flat. I'm very clear that's not because of a flash bang in 2023. That's because of the hard work that's gone on for the last few years in investing in our operating platform to keep those costs flat. I'm going to talk through all of the other line items, and I know lots of people are interested in restructuring costs. So I'm going to cover them all as I go through the presentation.

Net operating income

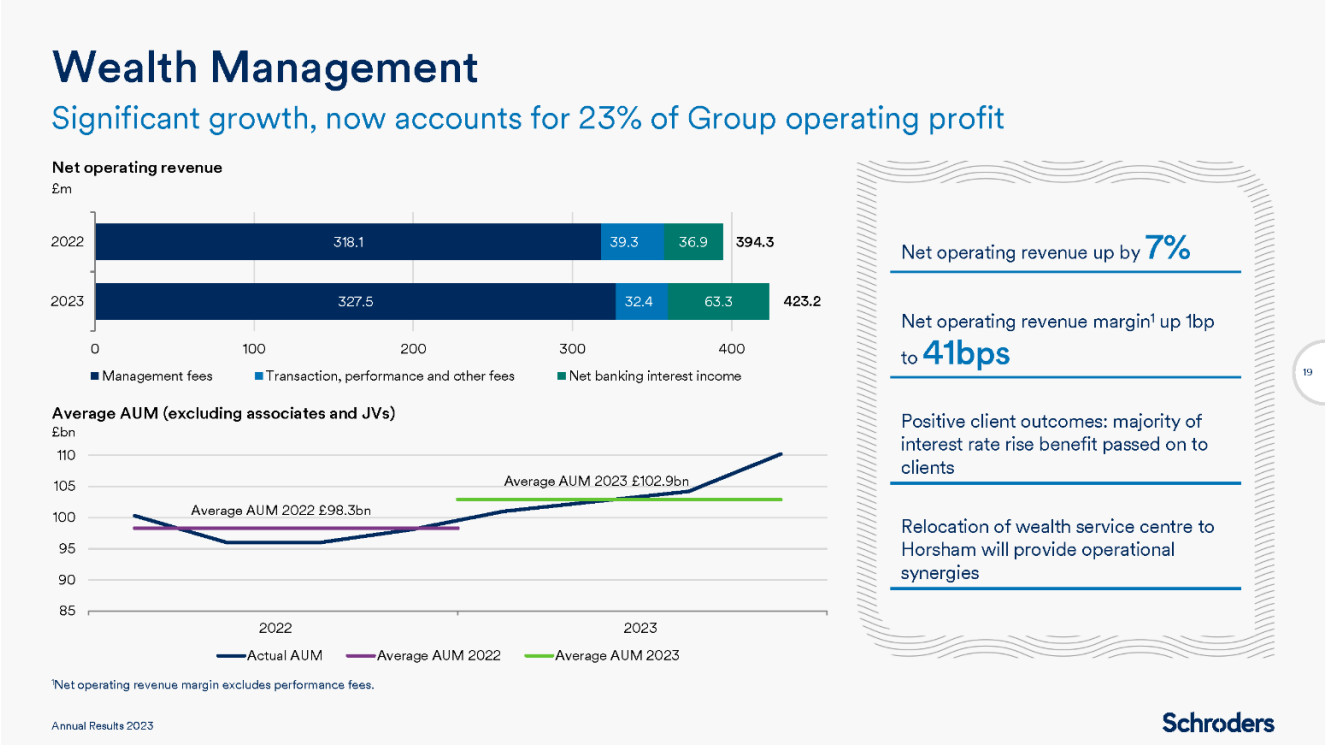


So let's get started with operating income. You will all have seen this net operating income bridge before, and what's really striking for me is that actually total revenue has only declined by 1%, despite all of those industry headwinds that we know about. So let me talk through some of the challenges. So, the red bricks, and then I'll come back to the revenue opportunities that we generated, the green bricks in a second. So our average AUM reduced by 4% year on year. That was principally due to FX and the market movements that we actually experienced in the second half of 2022 gave ss a lower starting AUM that caused a reduction in our revenues of £52 million. Next, despite the net inflows we generated during the year, net new business actually reduced revenues by £23 million. £10 million of this represents the full year impact of the outflows that we had in 2022. The remaining £13 million is a mixed impact, where clients allocated increasing portions of assets into lower risk and lower margin products.

We also saw a reduction in other fees. That was largely because of a fall in real estate transaction income by about £11 million. That, of course, reflects the decline in deal activity in the real estate markets. On a much more positive note, we generated £84 million in performance related fees. That's an increase of £25 million on 2022. This includes £47 million on carried interest from Schroders Capital. This is becoming an increasingly significant revenue stream for us as the business grows and delivers positive outcomes importantly for our clients. As I look forward to 2024, as you know, it's notoriously difficult to try and estimate how much we'll earn in performance income, but we're currently budgeting for £75 million in 2023. We also benefited from an additional £40 million from both strong growth in net interest income and

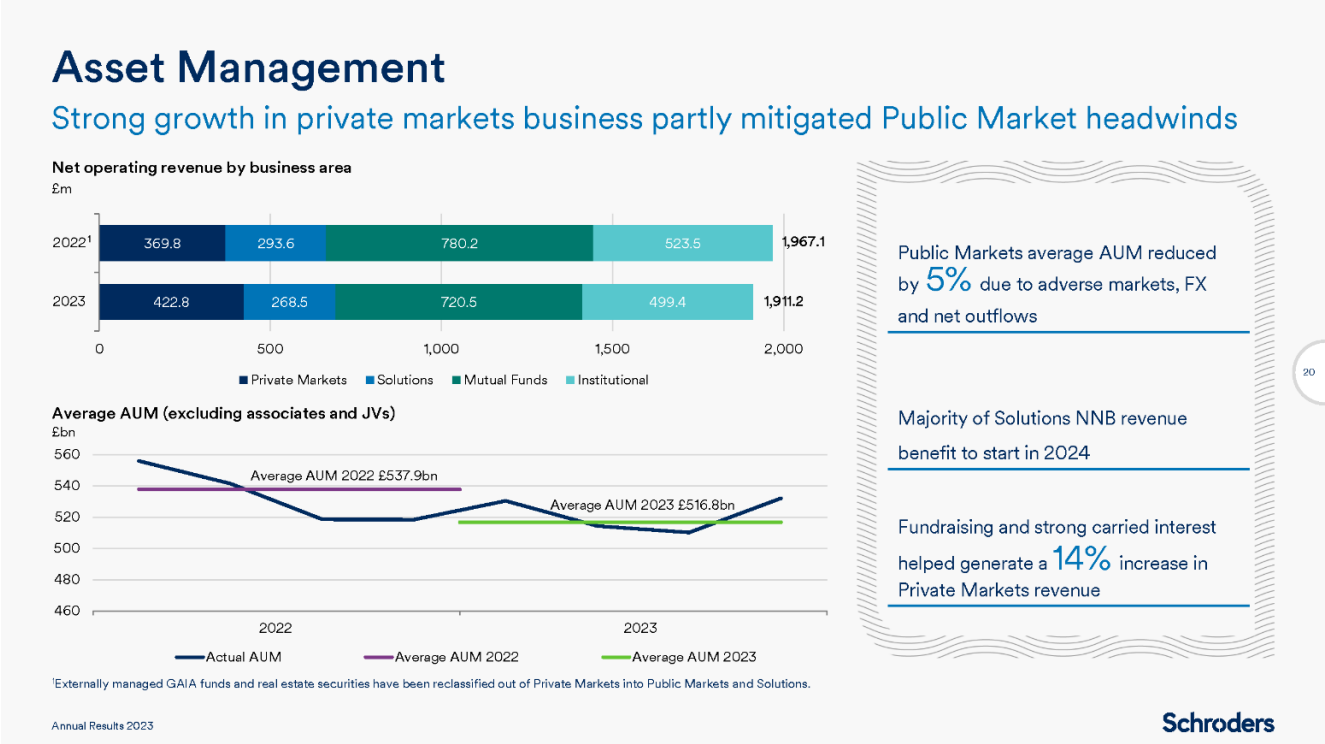
from the acquisitions completed in 2022. I'll come back to the interest in joint ventures and associates in a little while. Let's move on to the operating segments.

Wealth Management



So Peter said he thought these results were excellent. I think they're absolutely awesome. Wealth now accounts for 23% of the group's operating profit, and importantly, we can see positive momentum. Entering 2024, the net operating revenue margin increased by a basis point to 41 basis points, and that's mainly due to the increase in net interest income as clients maintained a greater weighting towards cash. Of course, we also benefited from higher interest rates. The point I really want to stress to you is that we put our clients at the heart of what we do and that means that we actually don't keep a large portion of the interest that they earn on their cash balances. So, for example, when I look at our UK Cazenove business, we only retain 50 basis points of the interest that they earn on the deposits with the Bank of England. Looking forward to 2024, many of the conversations we're having with those clients is really anticipating the move from cash into more risk assets. But realistically, that's going to happen progressively over the year. And so I'm still budgeting for 41 basis points into 2024.

Asset Management



Moving on to asset management. Now, you've all been writing about the outflows in mutual funds at institutional businesses, and we, of course, have not been immune to that. As you saw, market movements along with outflows meant that our mutual fund average AUM fell by 5%. However, I'm going to double down on the earlier point that we did increase market share in the UK and had positive flows in the US, but that meant that our net operating revenue margin was 69 basis points, one basis point lower than where we had guided you to at the half year, and that's due to the mix of flows. As I look forward to 2024 the rest of this year, I can see a further softening so I'm budgeting 68 basis points.

For our institutional business, our average AUM fell 6% due to outflows and adverse markets. Net operating revenue reduced by 5% to £499 million, although outflows were from lower margin mandates, that actually meant our revenue margin increased to 35 basis points in line with guidance. As we go through the rest of 2024, I expect that to tick up to 36 basis points, reflecting the full year impact of the outflow of the lower margin mandates.

Moving on to solutions and our private markets businesses, where our performance demonstrated the value of our pivot into these strategic areas. Solutions generated that £12 billion of net inflows, but average net new business declined by 6%. And that was really mainly as a result of assets falling at the end of 2022, following the increase in bond yields. This, along with the timing of how our flows came in in 23, meant that revenue for solutions was down 9%. The net operating revenue margin reduced by a basis point to 12

basis points. And that really is because we were successful in attracting assets into OCIO and LDI mandates. I would expect that margin to remain broadly consistent in 2024.

Our private markets business generated fundraising of £9 billion, which, given the soft fundraising environment, was a really solid performance. This led to an increase in average AUM of 10%. Now, having taken account of the carried interest that I talked about; average revenues increased by 14% to 423 million. That's 22% of our asset management revenues coming from Schroders Capital, I think that's a really great contribution. The net operating margin reduced to 57 basis points, and that's really as a result mainly of the real estate transaction fees that I talked about. Now, the other change is actually we reclassified some assets from private markets into public markets. That reduced our margin by 1% and that really reflected a change in management responsibilities. Assuming real estate transaction activity normalises in 2024, we'd expect the margin to increase to 58 basis points. So overall, a solid performance from our asset management segment.

Interests in joint ventures and associates

Interests in joint ventures and associates

Share of profits impacted by market sentiment in China

Share of profit of joint ventures and associates[1]

	2023		
	Asset Management	Wealth Management	Total
Net operating income (£m)	447.6	129.7	577.3
Profit after tax (£m)[1]	182.0	4.1	186.1
Group's share of profit (£m)[1]	48.7	2.4	51.1
Contribution to Group's PAT			13%
Revenue margin[2]			42bps
AUM (£bn)			108.2
	2022		
	Asset Management	Wealth Management	Total
Net operating income (£m)	535.9	140.0	675.9
Profit after tax (£m)[1]	260.8	8.4	269.2
Group's share of profit (£m)[1]	73.6	4.0	77.6
Contribution to Group's PAT			16%
Revenue margin[2]			41bps
AUM (£bn)			121.0

[1]Excludes amortisation of acquired intangible assets and restructuring costs.
[2]Includes performance fees.

Well positioned in China although near-term volatility meant share of profits from BoCom FMC down by **28%**

Positive performance from Indian venture with Axis: **17%** increase in our share of profits

Unfavourable FX movements contributed a **6%** reduction overall

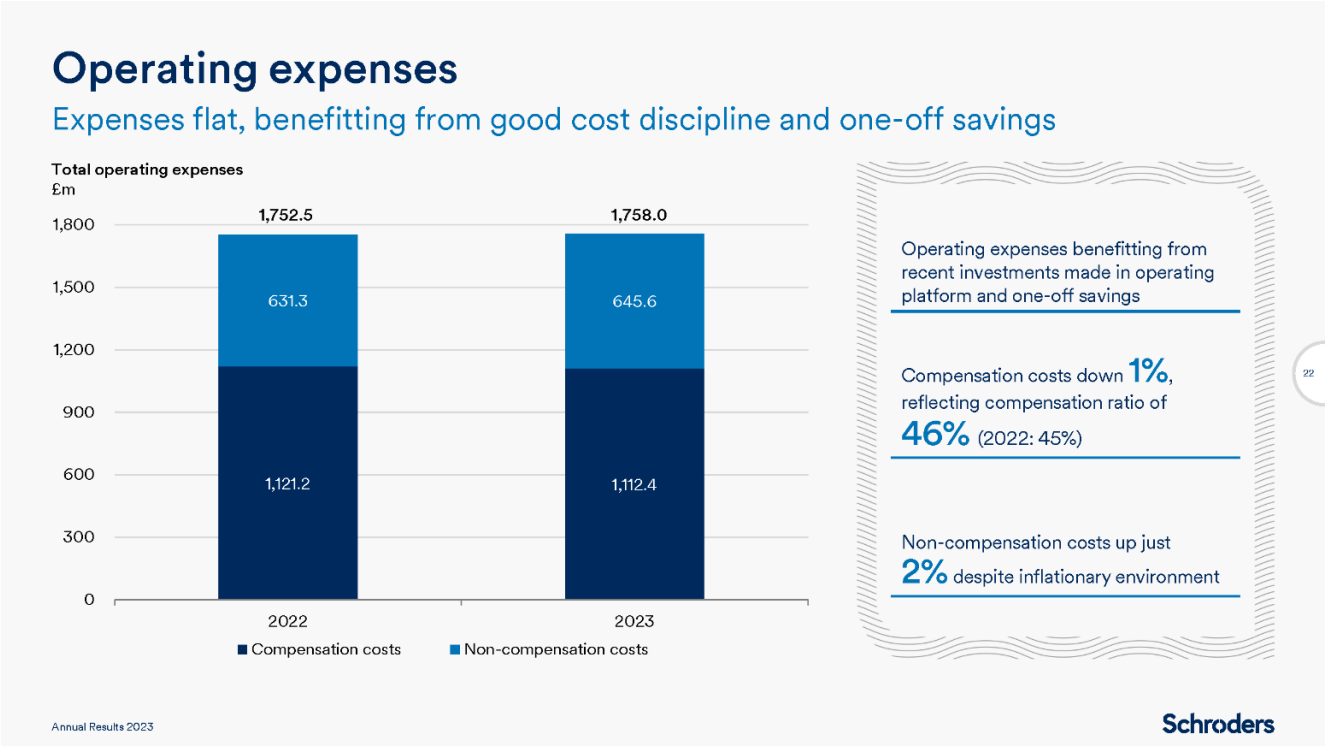
21

Annual Results 2023

Schroders

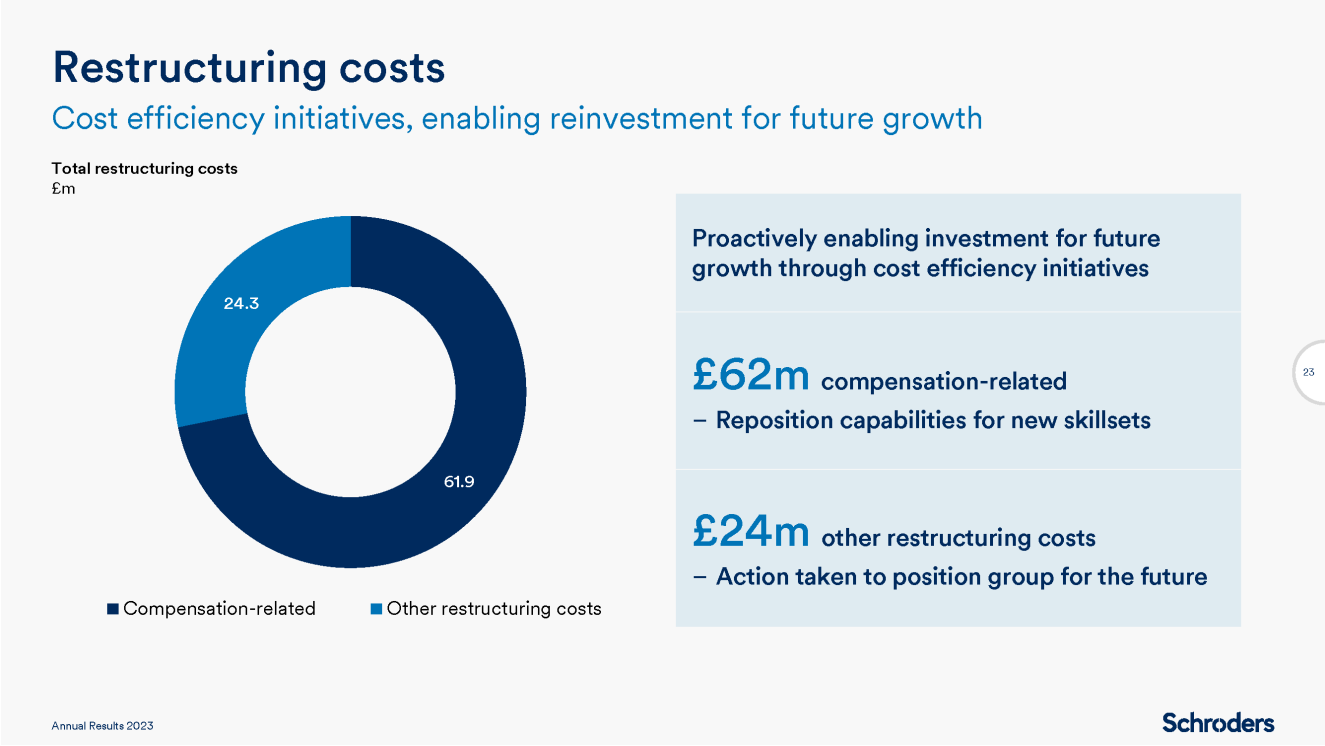
Moving on to joint ventures and associates, where our share of profits actually declined 34% to £51 million. I'm going to focus on China and India because that's where we saw most of the change. I was in China in January and the thing that is so striking is in a market where relationships really matter, our almost 20-year partnership with Bank of Communications is a real strategic asset. It means we have a recognised brand, a big established presence. The Fund Management Company JV is recognised as a leader in the marketplace. And in 2023, our Wealth Management Company JV had its first full year of operation. And of course, that WMC JV holds one of the few licences in the marketplace. Not in these numbers, are our wholly owned FMC, where we launched the first product in December, but also our private markets licenced entity that operates in China. In the near term You all know that the markets in China are difficult. The equity markets declined 12% in 2023. That's really following two previous down years, the first time that has happened in three decades. That's going to give us some short-term volatility. That volatility, together with the FX movements, meant that our share of profits from the FMC JV fell by 28%. And as we'd expected, the WMC JV has Not yet reached breakeven. The medium-term outlook for China, we think remains strong. There is good wealth creation, there is a need for long term savings, and there is a wall of cash waiting to be deployed. The interesting statistic I learned was that since 2020, the cash deposits in Chinese banks has increased by 37 trillion RMB. A small amount of that coming to the markets would actually make a huge difference and makes us really positive about the investments that we've made during the year. We saw some investors reallocate from China to India, where of course, you know, we got the partnership with Axis. We're really positive about India, and we saw the results from that arrangement with Axis increase by 17% during the year. Gives us somewhat of a natural hedge against some of the volatility we saw in China.

Operating expenses



Now to operating expenses. So we've had a disciplined approach to how we managed operating expenses because we had to mitigate the inflation that we've all been facing. We had to deal with an increase in costs from acquisitions that we did in 2022, and, of course, we tried to keep creating capacity in the business to invest for that growth. In 2023. We delivered the 46% compensation guidance that we had guided you to, and we did that by actually reducing our compensation costs by 1%. For 2024, assuming a modest growth in markets, we are expecting to hold that compensation ratio flat. We had non-compensation costs of £646 million. As you know, a portion of these are linked to our assets under management, so they will go down and up as our assets under management move. So that gave us a natural offset to some of the market pressure. We also benefited from £10 million pounds of one-off savings. For 2024, we think non comp costs will be around £675 million. This includes the reversal of that £10 million of one-off benefits. The remaining 3% is almost entirely linked to costs that we incur with movements in our assets under management. So, for example, can't get my words out, actually Aladdin costs.

Restructuring costs



So, on the basis, lots of you outside asked me this morning about restructuring costs. Let me now unpack those in a bit more detail for you.

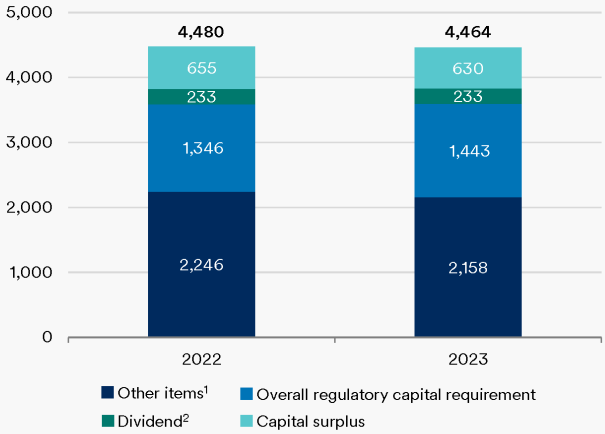
The half year we talked about two restructuring activities. The change in our technology strategy following the migration to the cloud and the relocation of the Zurich service centre to our operational campus in Horsham that will be completed by June of 2024. Together they came to £24 million pounds. In the second half of the year, we've taken an additional charge, and that's because we're focused on that healthy business: how do we save to invest and grow? And what we saw in the second half is more opportunities to accelerate that, so we're well positioned for growth in 24. And this led to a total charge of £86.2 million. £62 million of that is about headcount management. We have removed some roles and at the same time we have recruited skills and capabilities in areas that we think are critical to our future growth. Around £40 million actually does relate to roles which will not be replaced. And, as I mentioned, that gives us confidence in holding our compensation ratio guidance flat at 46%. The restructuring costs also include £24 million of non-compensation costs. They are mainly software and property related and property. That's really about how we've looked at the usage of our property in a post-Covid working environment.

Group Capital composition

Group Capital composition

Strong capital position, disciplined allocation

Capital base
£m



[1]Comprises regulatory deductions, principally goodwill, intangible assets and pension scheme surplus.
[2]Final dividend proposed for the respective year.

Capital allocation

1 Organic investment for growth
- Continue to invest organically
- Strategic investment in growth initiatives
- Technology and innovation
- Seed and co-investment

2 Dividends
- Progressive and sustainable dividend

3 Inorganic investment
- Deliberate and considered approach
- Bolt-on opportunities
- Strategic partnerships

4 Share buy-backs
- Medium-term time horizon

Annual Results 2023

Schroders

Now, let me take you through our capital position, and you will have seen this diagram if you've been in the room before. And at £630 million, our surplus capital remains strong. In fact, most of that £25 million movement is a result of changes to our regulatory capital requirements. It's important that we have the right amount and the efficient capital structure to drive this business forward. And I thought it would be helpful, maybe, for me to share how I think about the capital allocation and the priority that we're giving it in the business. So, firstly, we've always invested in our business organically. I think we talked about that a lot this morning, and we're going to continue to do so. Within organic investments. It's not just about skills and capabilities, it's about seed capital and co-investment, and of course, any additional capital that we need as a result of regulatory changes. Secondly, we need to increase our dividend cover. Our current dividend payout ratio is 66%, and that compares to the policy that you're all aware of, of 50%. Now, I'm really comfortable with the current payout ratio, and that's because I can see the benefits of our strategy coming through in the cash flow and business forecast that we've got over the next few years. But we do have to bring our dividend back in line with that policy, which, of course, will happen as we drive up profitability as part of our growth strategy. We've historically used our capital to take advantage of strategic inorganic opportunities. We're going to continue to be deliberate and considerate in our approach going forward, although that will probably be on an opportunistic basis. And finally, in the medium term, having restored the dividend cover, if we have capital that's in excess of our investment needs, of course we'll consider returning that to shareholders.

Profit before tax

Profit before tax

Resilient results demonstrate benefits of strategy and positive cost management

£m	2023	2022
Operating profit	661.0	723.0
Central costs	(52.9)	(48.8)
Net gain/(loss) on financial instruments and interest income	55.7	(0.9)
Acquisition costs and related items[1]	(90.0)	(86.4)
Profit before restructuring costs	573.8	586.9
Restructuring costs[2]	(86.2)	–
Profit before tax	487.6	586.9

Basic operating EPS **32.5p**
2022: 37.4p

Basic EPS **24.6p**
2022: 30.4p

Final proposed dividend **15.0p**
2022: 15.0p

[1]Include deal costs associated with corporate transactions and costs associated with the integration of acquired businesses as well as amortisation of acquired intangible assets.
[2]Restructuring costs are one-off in nature and primarily comprise compensation-related costs.

Annual Results 2023

Schroders

Let me wrap up. So the strategic decisions we've made have meant that we've enabled, we think, to navigate the headwinds we've had this year in a really sure-footed way. And that enables us to deliver the set of results today, which we think balances the need for shareholder returns with the important need to invest in our business for the long term. Our operating profit was £661 million, down 9% compared to the prior year. Our effective tax rate on that operating profit was 17.5%. This meant that our operating earnings per share stood at 32.5 pence. And I am pleased, of course, to tell you that we maintained our dividend at 21.5 pence per share. We expect our operating profit tax rate to increase to 19.5% in 24, and that is a reflection of the change in the UK corporate tax rate on a full year basis. As you have historically seen, the central costs are offset by the gains in financial instruments and interest income, and the acquisition costs at £90 million are as a result of intangible amortisation and the revaluation of contingent consideration. We expect that number to be about £80 million in 24, and that's resulted in a profit before restructuring costs of £574 million, which is only 2% lower than 2022. Given the market context, that represents a solid performance. After taking account of the restructuring, our profit, statutory profit before tax, is £488 million.

I feel I've just gone through an awful lot of numbers with you, so as I pull this presentation together, I thought I would tell you what I took away from it. Firstly, we've seen really good growth in the strategic areas that we think are critical to our future. And despite the headwinds, a really solid performance from asset management and going back to where I started, that gives me a huge amount of pride. And that's real evidence that our fully developed client proposition really is starting to set us apart from our peers.

Secondly, our margins overall have remained stable. Our costs were flat despite inflation, despite the problems caused by acquiring things and having to take the full year impact. And with real investment in our business, that demonstrates positive and proactive cost control. And whilst we can't predict markets, we have a great capital base and we have a discipline in how we're going to use it, and that positions us really well for the business in the long term.

That is all I had for you. So, Peter, with that, back to you.

Peter Harrison

Outlook

Thank you, Richard. Thank you, everyone. Just a quick word on outlook. Obviously very early in the year, but there's been one or two comments about the risk environment improving, particularly on mutual funds, and we've seen that come through. I think there's a lot of wars to travel, but my sense is that there is a risk environment coming back. In private markets, fundraising started well, you might have seen we did a very large solar transaction recently, which I think was the largest that's ever been done in the UK, which is helpful from a private asset fundraising perspective. And we've got good momentum from a performance perspective. So I think from a broad background perspective, we expect some of those headwinds to start abating.

I think probably the more important point is the long-term point, which Richard was just making at the end, that as the mix of the business changes and the compounding effect of those growth businesses getting larger, it gets easier and easier to offset the headwinds in the other parts of the business. So that's the other piece of medium-term outlook. With that, I think we'll stop, and we'll go straight to Q&A. If you could start by giving your firm and your name, and then we'll go straight in. Who's going to start. I've learnt to always to have a pen and paper ready at this point.

Q&A

Hubert Lam (Bank of America):

Thanks. It's Hubert Lam from Bank of America. Thanks for taking my questions. I got three of them. Firstly, on consumer duty, just wondering what your thoughts of consumer duty is on your business and your wealth business in particular. You discussed about it in the past, but obviously the bar is changing all the time. So wondering what your thoughts are and the impact for you. First question. Second question is on institutional business. You saw pretty sizable outflows last year. I know you explained part of it is due to cyclical and others do structural factors, but if the risk environment is improving, do you still expect that segment to have outflows just given the structural things around it? And lastly, on capital, I think Richard did a good job explaining all the different things you're considering around inorganic dividend cover etc. But firstly, can you explain why the capital requirements have gone up? That's the first question around capital. And secondly, it feels like that for time being, you're more focused on organic and dividend cover rather than inorganic. Is that fair? Thank you.

Peter Harrison

Perfect. Thanks, Hubert. Let me start on consumer duty. From my perspective, consumer duty is helping grow the moat around our business, because doing it well and doing it with a good regulatory licence to operate, I think it becomes a really helpful thing. So we've hit all our targets on getting that done. I think SDR is the other part of it in terms of the sustainability regs, which is another major piece of work for firms to get through. So I actually see that that was done. We've been very clear the impact on margins is de minimis because we felt we were already in a good place. And I think our sense is that we've landed really well on that, on the institutional business. Look, I think there's two factors here. One is where you see strong alpha. I think there's very clear institutions continue to allocate to institutional, but there is undoubtedly a shift from active to passive, and we've got to navigate that headwind and take share. There is also a couple of other trends in terms of more assets moving in, sustainability, and even some assets moving into impact, and I think we're well placed for both of those. So to my mind, it's too idiosyncratic to say in any short-term period. But do I feel more confident about the outlook for that segment over time? Absolutely. And I think where we've got really strong franchises in markets where the puck is going to. So global equities, very strong for us, Asia, and emerging all sort of market leading strategies. And I think the headwinds tend to be much more in regional strategies, which are relatively smaller in the mix. On capital, Richard, do the first bit and I'll come back and do the second bit.

Richard Oldfield

Sure. Most of the regulatory changes caused by the countercyclical buffer increasing from 1% to 2% during the year.

Peter Harrison

And on inorganic, actually this was the first year for a number of years we didn't do a transaction and we signalled it last year that we just didn't feel that prices reflected the prospects for the businesses that were out there, particularly in private markets where they'd become too fashionable. Everybody was buying and the earnings outlook for those businesses was too uncertain. That doesn't mean to say that we're not still front footed about it. And I do think we'll see opportunities in wealth, I think we'll see opportunities in private markets. And that's where our focus is on picking those up, but maintaining valuation discipline and being clear that the cultural alignment is there, the synergies are there is really where our focus is, rather than just doing it for the sake of doing it, but we haven't downgraded it. We just want to make sure that we pay the right price.

Nicholas Herman (The Citi Group):

Yes, hello, it's Nicholas Herman from Citi Group. If I just start with JVs, I think there was quite a marked decrease in profit contribution from your China JVs, I mean BoCom, I mean is that the second half a good

run rate going forward? And then I guess you would build from that as you grow volume, I guess, as a result of the fall in prices due to the price caps. Second question on costs. Your guidance was on comprehension if markets normalise, but I guess this is an election year, so if they don't, would that imply 47% or so on the comp side, if I take out the £10 million one-off, I guess that still implies a 3% underlying cost inflation in non-comp. Just curious why that seems quite, to me at least that seems a little bit strong in light of revenue pressures. And then finally still in the process of running through numbers. But I guess broad, broad brush, it seems to imply an expense ratio for 2024 of 72%. How long do you see it taking to get your expense ratio down to your target of 65%? Thank you.

Peter Harrison

Let me make a start on those. I think the key for China really is the point that Richard was making. When flows resume, this is a business which is perfectly capable of taking in £10, £15 billion of flows in a year. It's got a really strong market position. It tends to win pretty well every award. It's seen as the premier JV out there. So I'm absolutely not concerned that it is a damaged business. It is a cyclical challenge. I don't know, Richard, if you want to add to that.

Richard Oldfield

No, and actually we can see, Peter, that actually in the FMCJV, they launched a product in December which each week actually managed to attract good solid inflow. So actually I think there's, despite the risk off environment still in China, in the retail market, there is some evidence that they can attract flow into products.

Peter Harrison

On comp costs. Look, I think we work during the gear to change our investment levels to make sure that we hit targets. And we've been pretty good at coming to you and saying, this is our target, we can deliver. I think what we never want to do is be a hostage to saying this is the number and know ignoring it. So I think Richard's right to put a marker down, but we're laser focused on making sure that our organic investment is commensurate with the environment in which we're operating. I think it's that balance that we're constantly moving. But it wasn't a veiled threat that we were going to be pushing it up.

Richard Oldfield

No, I think that's right. There's no point guess second guessing the markets. Of course, we're somewhat dependent on those at the moment. Assuming a modest market movement, we're expecting 46% works.

Peter Harrison

Yeah. Richard might want to add something on non-comp cost, but we gave the position on Aladdin. If you're forecasting markets coming through a little bit, you've got to forecast that your Aladdin costs are going to go up a little bit. But I'd also say that we've moved to the cloud software so that cloud costs go up. We're doing a huge amount from an AI perspective, that drives up your compute costs. Rents go up around the world.

Richard Oldfield

No. Well, I just add to that. So whilst I agree that we had the one offs, and let's be clear out with the one offs, the reason they're not recurring, Peter, is, they were broadly some VAT refunds and some rebates on some expenses. So we're not going to see those repeat in 24. But the inflation pressure is unabated. So we had to offset more than £20 million of increased technology cost in the year, more than 6 million of lease costs. Of the things you were just talking about, Peter, actually, the reason I kept banging about the acquisitions was there's probably another £46 million of acquisition related and investment costs that we absorbed in that. So I think even if you. One of the things we didn't want to do is keep giving you numbers, taking off all the things that we had to do. But if you take all of those off, I think you show that actually. The recurring revenue base was down.

Peter Harrison

And on the 72%. Look, I think we've set out our stall that is around long term strong organic investments. So we've got a number of J curves which are still really quite immature. So new WMC in China, a wholly owned FMC, it did its first product launch at the end of December. It raised 1.3 billion RMB. But that business is a long way from maturity. We've got our private markets businesses, we've got a huge number of funds in vintage two, vintage three. The next fundraise will help give us a lot more scale in those businesses. The regional network in wealth where we've built out there is a J curve for each and every person you bring through there. And the view we've taken is that now is the time to really push home. That organic growth rate and 30% margins feel like a pretty healthy basis on which to make future organic investment. So rather than being hung by a target, let's make hay while the sun shines.

Arnaud Giblat (BNP Paribas Exane):

Good morning, it's Arnaud Giblat from BNP Paribas Exane. Three questions, please. Could I ask about the private asset business? Could you zoom in a bit on your expectations for maybe the largest one, the real estate business, given gated funds out there, what is the outlook for flows? How long does this take for real estate to be able to ramp up again? My second question is on your performance fee guidance. I think you said £75 million. I assume a big part of that comes from carry. What sort of assumption do you have behind that in terms of exits coming back? My third question is on client flows in wealth. I assume that perhaps there's been some headwinds from clients putting money into gilts, into deposits. What sort of a headwind has that been in 23. And just to give us a bit of an idea of any unwind potential there. Thank you.

Peter Harrison

We'll do the same again. I'll start Richard to pick it up. So, look, I think the real estate we saw actually a £2.3 billion inflow in real estate last year, and that is because of this shift that we've made in our business towards value add. So we took on things like running the Knightsbridge estate, where there's a real opportunity to rebase all that area around Knightsbridge, which is getting a bit tired. And that value-add capability makes us rather different from running secondary shops in the north of England, et cetera, which undoubtedly is an area which is under pressure. So I think you will see a little bit of leakage in inevitably, as pension funds go to de-risking, they tend to want to sell their property assets. I think the performance we've got in that area and the way we're able to repackage assets means I don't think that's a particular headwind for us, because we may actually be able to repackage for some of the pension consolidators, the insurance buyout firms, some of those assets. So I think, yes, it's going on, but we never launch the retail mutual fund, which is the pressure where, that's where the large number of redemptions are queued up. And we never played in that space because we didn't think it was appropriate. Do you want to take on performance fees.

Richard Oldfield

Yeah. So it's a great question. It's always a bit of an art of a science in that forecast. We've included an estimate of about the same level of carry, or a little bit lower. But the rest of it really comes from our view of how the business will do. During the year. We've already had £1.5 billion of net new fundraising, the year there's £900 million of net new business. So the rest of the assumptions really relate to how we see the flow of the business turning into assets.

Peter Harrison

I think what you have seen in the past is we've taken a pretty conservative view of future carry, so it's not as if we're writing back large amounts of historic recognised carry, et cetera. So I think that conservatism has been a big part. And again, the valuation is right, and we've quite publicly taken down some of the

valuations of one or two assets which others haven't taken down. So again, I think we feel confident that our accounting is prudent.

On the gilts trade. I think it's a really good point because probably the single biggest trade in the wealth management world last year was short-dated gilts. And the thing about that is you can't really charge clients an awful lot for holding a gilt to maturity. So there is an opportunity, as those assets flow into more traditional risk assets, that basically you go from a low fee earning asset to a higher fee earning asset. I'd say the corollary of that is that clients have learned to really like single line bonds in their portfolio and the certainty of holding them to maturity. And I've spoken to one or two other private banks, and I think we're all sitting there saying it's not altogether clear that everyone's going to give up that trade quickly. So I wouldn't get overexcited about the opportunity from it, but I think there is something of an opportunity as that trade normalises a little bit.

Richard Oldfield

And Peter, that's really central to keeping our forecast of 24 constant in terms of a margin perspective.

Peter Harrison

Yeah.

Angeliki Bairaktari (JPMorgan):

Good morning, it's Angeliki Bairaktari from JPMorgan. Thank you for taking my questions. First, one on Schroders Capital flows. You do mention in the press release £7 to £10 billion per annum over the medium term, which has been your target. Do you think this is achievable for 2024, or is it perhaps too soon, or maybe coming from a much lower number in 2023, 2024 is going to be somewhere in the middle? Secondly, a very interesting comment on the dividend payout ratio. Just to be clear, does this mean that we shouldn't be expecting any spectacular growth in terms of dividend per share until we get back to the 50%, or could we see some growth actually in the DPS in the coming years? And with regards to the restructuring, is there any room to do anything else there in terms of restructuring? Perhaps eliminated some other sort of jobs that may not fit into sort of the new growth areas that you have identified. Thank you.

Peter Harrison

We'll do the same again. So look on the seven to 10 billion, we're certainly budgeting to hit it. So from our perspective, undoubtedly the fundraising environment is uncertain, but the clouds are clearing quite quickly. I talked about the experience we've seen so far. I think things are opening up and those who

haven't read up last year are definitely highly engaged on this year. So I think we're very comfortable reiterating our guidance, whether it's in any one year, I'm sort of ugly enough not to want to make those individual commitments. But I think absolutely. Do we think this business is there? If you look at our fundraising rate, it's absolutely up there with best in class. So it says to me that we're participating fully in whatever environment we have and we look at the size of the business, it's pretty well commensurate with that. One of the challenges last year is we entered the year with £4 billion of dry powder and we expected more of that to be deployed. And actually we still ended the year with £4 billion of dry powder. So that was a bit of a headwind in not getting that money into the market.

Richard Oldfield

Angeliki, I think if you do the numbers, I think we're returning to the fundraising run rate that we had in 22, then that sort of gets you back. But of course we are going to be dependence on the fundraising environment.

Peter Harrison

One of the opportunities we have is on the build out of things like Greencoat. And as funds mature, those businesses naturally get bigger and they enter new markets. And I think the renewables world had a complete hiatus as gilt yields rose because everyone said, why would I want to own an infrastructure asset. In the new world those yields are starting to adjust quite nicely and we're now finding that it's not a UK obsession, investing in wind and solar, it's much more becoming a global thing. So that's helpful. Do you want to talk about dividend?

Richard Oldfield

Yeah.

Richard Oldfield

So, Angeliki, you should not have read anything I said to think that I'm trying to move us away from our dividend policy. So I think we have always said that policy, our aim is to have a sustainable and progressive dividend, but we would expect that over the cycle to be about a payout ratio of 50%. Well, clearly, we're above that. We still want to have a progressive and sustainable dividend, but we need to drive up the profitability of our business in order to drive up the dividends that we can pay our shareholders. And that's absolutely the focus of what we're trying to do. So, no, you shouldn't infer anything in particular into what I said about where I'm forecasting the dividend ratio to go.

Peter Harrison

Progressive, unsustainable as the key words in the thing. And on restructuring, I think we've worked really hard over the years to ensure that we are reimagining our business and we've reimagined the back end of our business pretty well, completely, and moved to a very different operating model from the rest of the industry. We're reimagining the way in which we work in all sorts of areas. But I think what we're also saying is we're not budgeting for a restructuring charge this year, but within the context of our business, every year we do a certain amount of change. Last year was a particularly large amount of change, and therefore we called it out as a number. But that's not to say that this isn't BAU in terms of driving our business forward. We've got to be absolutely at the front end of. If you want to do sophisticated business with sophisticated clients, you've got to have brilliant systems, and that becomes an opportunity to do things other people can't do. And that's what you're seeing in our solutions business. But that requires us to keep on imagining. The reason we'd had a great LDI crisis was we had the right platform to do it. And so we're not asleep. We're absolutely on top of it. But I think last year was a particularly big lift in terms of restructuring. Richard.

Richard Oldfield

No, I think that's perfectly right. You'd expect us as a management team to make sure we're focused on driving the healthy of business. And I keep using internally that phrase of save, invest to grow. So we're going to keep doing that. But there's no restructuring charge in the budget.

Peter Harrison

We like the phrase internally healthy.

Mike Werner (UBS):

Thank you. Mike Werner from UBS. Just one question. In terms of your public market flows, I guess we heard from some competitors that we've seen a pickup of fixed income flows year to date. I know that's not. I guess Schroders is a little bit underweight in terms of fixed income, maybe a bit overweight in equities in the public markets. Just wondering how you think about how Schroders is positioned to benefit from ultimately those first flows into fixed income and then potentially later into equity. Thank you.

Peter Harrison

No, Mike, interesting question. So, actually, I would say that in euro credit, we're probably number one. We've got one of the largest funds and we've got one of the very best performances. So if you look at the funds, over a billion, we absolutely are front and centre. Our performance is stronger, and the fund is very large because they can take big flows. The other interesting area is global credit income, which is an important strategy going forward. Again, we've got a great position there. And the multi asset income, we're not quite fixed income, but you may have seen HSBC, we just made an exclusive launch with them globally, across all of their network in that area. And then I think the two other things I'd call out in sustainable credit, which I think is a very fast-growing segment, we've just gone through a billion there. That's, again, something where I think we are a market leader. And in the US, tax aware bond, which is a slightly, moving for different reasons. But tax aware bond again, is a strategy which is sitting behind the Hartford flows again through a billion. So interestingly, what we're not known for is the macro global multisector, but that's not really where I think the flows are going to go, the flows are going to go into strategic credit, multi asset credit, and there our performance is great, and we've got some good product on the shelf.

Peter Harrison

If I've done the questions in the room, just ask, is there anybody online that I should be going to?

Operator

There's none so far. But just a reminder if anyone is online and wants to ask a question. Please raise your hand.

Peter Harrison

Silence. Fantastic. Thank you. Well, I hope you didn't find the clouds going past behind me a bit discombobulating. But thank you all for coming. Richard and I'll be around if anyone has anything. But very good to see you. And you're in time to get away for one of our competitors, I gather.