Schroders

Press Release
Schroders plc

Full-year results

4 March 2021

- Our diversified business model has enabled us to deliver a strong financial performance in 2020, despite the challenging environment, with profit before tax and exceptional items of £702.3 million.
- We delivered strong investment performance[1] with 75% of assets outperforming over one year, 72% over three years and 81% over five years, demonstrating the value of active investment management for clients.
- We generated net flows of £42.5 billion and assets under management increased 15%, up from £500.2 billion in 2019, to a record high of £574.4 billion.
- We delivered growth through our strategy, as we rebalanced the Group towards Private Assets & Alternatives, Wealth Management, Solutions and the United States.
- Our partnerships, predominantly in Asia, generated a further £12.4 billion of net inflows which increased the total net flows to £54.9 billion. Assets under management including our partnerships reached £663.0 billion.

	2020 £m	2019 £m
Net income	**2,179.2**	2,124.8
Operating expenses	**(1,476.9)**	(1,423.6)
Profit before tax and exceptional items	**702.3**	701.2
Profit before tax	**610.5**	624.6
Profit after tax	**486.0**	495.7
Basic earnings per share before exceptional items (pence)	**200.8**	201.6
Basic earnings per share (pence)	**172.4**	178.9
Total dividend per share (pence)	**114.0**	114.0

Peter Harrison, Group Chief Executive, commented: *"The strength of our investment performance showcases the benefits of active investment management and our ability to deliver good outcomes for our clients. I would like to thank our employees for their hard work and ongoing dedication to our clients which helped us to deliver a strong financial performance in 2020 despite the challenging environment.*

Assets under management increased 15% to reach a record high of £574.4 billion. We generated net inflows of £42.5 billion with strong demand in our Private Assets, Wealth Management and Solutions businesses. These higher growth areas now account for 54% of our assets under management. Our geographic diversification continued with our US business reaching a milestone of more than $100 billion of assets under management. We also continued to expand in Asia through our growing network of partnerships which contributed strongly to the Group in 2020.

I am proud of our continued progress in building a leading position in sustainability and impact investing. We now incorporate ESG factors into decision-making across our investment range. This fulfils a commitment we made in 2019. De-carbonisation is a critical issue. We are focused on supporting companies in their transition to net zero.

We are confident that our diversified business model will continue to generate value for all our stakeholders."

[1] Please refer to page 6 for more information about client investment performance.

Management statement

In an environment where our clients and employees around the world are facing many demands, our diversified business model has again demonstrated its benefits. We have delivered strong results with a focus on cost discipline and have generated good client inflows, despite the challenging conditions.

Profit before tax and exceptional items increased to £702.3 million (2019: £701.2 million). Profit before tax but after exceptional items was £610.5 million (2019: £624.6 million). Profit after tax and exceptional items was £486.0 million (2019: £495.7 million).

Our strategy of delivering growth through building closer relationships with end-clients in Wealth Management, expanding investment capabilities in Private Assets, and growing Asset Management through geographical expansion, strategic partnerships and leadership in sustainable investing is the foundation of the results we delivered in 2020. The three higher growth areas of Private Assets & Alternatives, Wealth Management and Solutions now constitute 54% of our assets under management and 43% of our revenues, an increase of 3% compared to 2019 for both assets and revenues.

Providing excellent investment performance to our clients through active management is central to what we do and underpins our strong financial performance. Our investment performance over one, three and five years was strong with 75%, 72% and 81% of assets respectively outperforming their relevant comparator. The extent of the outperformance in Equities and Fixed Income was particularly significant, demonstrating our ability to deliver good outcomes for our clients. In Equities, 75% of assets outperformed over one year, 74% over three years and 83% over five years. In Fixed Income, 87% of assets outperformed over one year, 91% over three years and 95% over five years. This also demonstrates the benefits of the integration of data science into our investment process. Intelligent data interpretation is now essential for every investment decision.

We have made continued progress in building a leadership position in sustainability and impact investing. In 2019 we acquired BlueOrchard, a leading impact investor and pioneer in the world of micro-finance. During 2020 we incorporated ESG factors into decision-making across the assets we manage. This fulfils a commitment we made in 2019. Our clients are now able to understand the direct impact of their investments using our impact measurement tools. We have launched two new sustainable fund ranges, which include a number of funds with compelling long-term investment propositions. We continue to broaden our capabilities for our clients and the number of our sustainable funds is set to increase significantly in the coming months.

Last year we launched the British Opportunities Trust, providing support through the pandemic and beyond, as well as the BlueOrchard Covid-19 relief fund. In December, we also launched the BSC Social Impact Trust, which tackles social issues such as homelessness, youth unemployment or local social care in alignment to the UN's Sustainable Development Goals. We believe that we have a fundamental role to play in encouraging and supporting companies in their transition to net zero. Schroders became a founding member of the Net Zero Asset Managers Initiative, committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. We committed to reducing our own emissions in line with a science-based target, not only for our business but also for the investments we manage on behalf of our clients. We are optimistic about the role finance can play to address these issues.

We generated net inflows of £42.5 billion (2019: £43.4 billion) during 2020. Our joint ventures and associates contributed a further £12.4 billion of net new business, bringing the total to £54.9 billion (2019: £52.8 billion). Assets under management increased by 15% to a new high of £574.4 billion (2019: £500.2 billion), equivalent to a five year compound annual growth rate of 13%. When the assets under management of our joint ventures and associates is included, total assets under management increases to £663.0 billion (2019: £569.4 billion).

Net operating revenue increased to £2,059.6 million (2019: £2,052.4 million). Our strong investment performance meant that 2020 was a record year for performance fees and carried interest, which reached £95.7 million (2019: £73.1 million). Net income increased by 3% to £2,179.2 million (2019: £2,124.8 million). This included a strong performance from our joint ventures and associates, which contributed £64.1 million (2019: £30.5 million).

We continued to maintain our strategy of investing for growth, while remaining disciplined on costs. During the year we were able to make Covid-19 related cost savings whilst continuing to invest in the business. Compensation costs were £974.7 million (2019: £927.3 million), which represents a total compensation ratio of 45%. Non-compensation costs were £502.2 million (2019: £496.3 million), resulting in a ratio of total costs to net income of 68% (2019: 67%).

Expanding our geographic reach through partnerships

Schroders has a longstanding history of expansion into growth markets and was an early entrant into North America, Central Europe, Latin America and Asia. Assets under management in our US business have exceeded $100 billion (£73.3 billion) for the first time with net inflows reaching £11.2 billion in 2020.

We have had a local presence in Asia for nearly half a century and are well positioned for growth. Our assets under management in the region reached £102.5 billion.

Much of our success in entering new markets is driven by our ability to create established, strategic relationships with partners, such as Bank of Communications (BOCOM) in China and Axis Bank in India. BOCOM Schroders generated net inflows of £7.7 billion as assets under management reached £68.4 billion. Axis Asset Management grew its assets under management to £19.3 billion, as it achieved £4.4 billion of net inflows.

The Chinese onshore market is one of the most attractive growth opportunities for asset managers. Schroders has been operating in China for more than 25 years. We launched our cross-border business in 1994 and in 2005 we formed a joint venture with BOCOM to start an onshore Fund Management Company (FMC).

Evolving regulation has provided new opportunities to access this market. We are one of a few international investment managers, and the first UK domiciled, to be in a position to apply for a wholly-owned FMC licence.

In addition to our existing joint venture with BOCOM, we have reached an agreement to establish a new joint venture for a Wealth Management Company (WMC). Schroders will own 51% of the new joint venture, which is expected to commence operations in early 2022. This new joint venture provides access to the domestic wealth management market, the largest sector in China's asset management industry with nearly £3.0 trillion of assets under management.

The two additional licence applications, combined with our existing business, provide Schroders with a broad platform to grow in China, the second largest and fastest growing asset management market globally.

Asset Management

Asset Management net income before exceptional items was £1,786.9 million (2019: £1,781.2 million). The net operating revenue margin before performance fees, net carried interest and real estate transaction fees was 36 basis points (2019: 43 basis points). The segment benefitted from a higher contribution from joint ventures and associates of £49.5 million (2019: £23.5 million). Profit before tax and exceptional items was £573.3 million (2019: £606.9 million). Profit before tax was £543.5 million (2019: £565.5 million).

Private Assets & Alternatives

Over the past five years, assets under management within Private Assets & Alternatives grew at a compound annual growth rate of 21% and assets under management closed the year at £46.1 billion (2019: £44.2 billion) with net inflows of £0.5 billion (2019: £2.8 billion). We saw good client demand for securitised credit, infrastructure finance, real estate and private equity.

In 2020, we acquired Pamfleet, a real estate investment manager with a strong track record of investing in Asia. This allows us to expand our geographical capabilities within Real Estate into Asia, which contains some of the highest value, fastest growing and most dynamic real estate markets in the world. The team brings significant industry expertise and geographical knowledge of the Asian real estate markets.

Solutions

Our deliberate action to invest in the technology platform over several years has positioned us well to take advantage of the demand for solutions strategies. Over the past five years, assets under management in Solutions grew at a compound annual growth rate of 21%, reaching £192.3 billion (2019: £142.8 billion). Net new business of £43.4 billion (2019: £34.5 billion) exceeded 2019 levels. We on-boarded £29.5 billion of assets under the Scottish Widows mandate. Net new business was also supported by an £8.3 billion mandate win in North America and demand from Continental Europe as solutions strategies continued to attract inflows.

Mutual Funds

Mutual funds saw £3.1 billion of net outflows driven by a risk-off environment in the first half of the year with limited demand from retail investors. Consequently, we saw first half outflows of £4.8 billion. The second half of the year saw a rebound in investor appetite which resulted in inflows of £1.7 billion with strong momentum at the end of the year. Assets under management closed the year at £104.2 billion (2019: £102.4 billion).

Institutional

The Institutional business saw net inflows of £nil. Assets under management closed the year at £159.8 billion (2019: £144.1 billion). The increase of £15.7 billion was the result of strong investment performance.

Wealth Management

We continued to see good momentum across Wealth Management, with strong revenue growth and continued client demand.

We generated net new business of £1.7 billion (2019: £14.7 billion). Of this, £1.2 billion (2019: £1.2 billion) of net inflows were from Cazenove Capital and £0.7 billion (2019: £0.9 billion) were from Benchmark Capital. Schroders Personal Wealth saw net outflows of £0.2 billion (2019: £12.6 billion) as the level of client referrals was impacted by Covid-19 restrictions. Total assets under management for Wealth Management were £72.0 billion (2019: £66.7 billion).

Net income increased by 24% to £382.7 million (2019: £309.6 million). Profits before tax and exceptional items increased by 26% to £110.5 million (2019: £87.5 million), and profit before tax increased to £64.8 million (2019: £52.9 million). The net operating revenue margin before performance fees was 56 basis points (2019: 59 basis points).

Growing our Wealth Management business has been a focus for several years. We acquired Benchmark Capital in 2016 and the firm has continued to expand its financial adviser network and has successfully migrated the majority of Schroders Personal Wealth clients onto its platform in 2020.

In 2019, we entered into a strategic partnership with Lloyds Banking Group and co-founded Schroders Personal Wealth, a financial planning business servicing mass-affluent customers in the UK. Good progress has been made in positioning the business for future growth with refreshed leadership and improved infrastructure.

In September 2020, we announced the acquisition of the UK-based multi-family office Sandaire. The acquisition expands Cazenove's leading position in the UK ultra-high-net-worth sector and added £2.4 billion of client assets to our Wealth Management business. Cazenove Capital has also continued to expand its reach across the UK with the addition of four regional hubs.

Group

The Group segment generated profit before exceptional items of £18.5 million in 2020 (2019: £6.8 million), driven by improved market conditions in the second half of 2020 and gains from our investment capital portfolios.

Dividend

The group continues to maintain a robust capital position. Accordingly, and reflecting our resilient financial performance, the Board will recommend to shareholders a final dividend of 79.0 pence (2019: 79.0 pence), which is unchanged from 2019. This will bring the total dividend for the year to 114.0 pence (2019: 114.0 pence). The final dividend will be paid on 6 May 2021 to shareholders on the register at 26 March 2021.

Outlook

Although political uncertainty has been reduced following the UK's exit from the European Union and the transition of power in the US, the pandemic continues to pose macro-economic uncertainty and will provide an environment which is favourable for active investment decision-making.

The Group is increasingly balanced towards the higher growth areas of Private Assets & Alternatives, Solutions and Wealth Management. We believe the macro-economic environment will accelerate demand for these areas going forward and we are well positioned to service clients around the world with the solutions they need. We maintain a strong capital position and are confident our diversified business model will continue to generate value for our clients, shareholders and wider stakeholders.

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Copies of this announcement are available on the Schroders website: www.schroders.com. Peter Harrison, Group Chief Executive, and Richard Keers, Chief Financial Officer, will host a webcast for the investment community to discuss the Group's full-year results at 9.00 a.m. GMT on Thursday, 4 March 2021. Once registered on https://www.schrodersevents.com/ar2020 a link to the Zoom call will be shared via email. A replay will be available from midday on Thursday, 4 March 2021 at https://www.schroders.com/en/investor-relations/.

Please visit https://www.schroders.com/en/investor-relations/ to learn how we handle personal data.

Forward-looking statements

This announcement and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Schroders Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'sees', 'believes', 'expects', 'aims', 'confident', 'will have', 'will be', 'will ensure', 'likely', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this statement. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this announcement or in the Annual Report and Accounts or on the Schroders website should be construed as a forecast, estimate or projection of future financial performance.

Additional information

Assets under management (AUM)

Year ended 31 December 2020

£bn	Private Assets & Alternatives	Solutions	Mutual Funds	Institutional	**Asset Management**	**Wealth Management**	**Group Total**	Associates	**Total including Associates**
1 January 2020	**44.2**	**142.8**	**102.4**	**144.1**	**433.5**	**66.7**	**500.2**	**69.2**	**569.4**
Gross inflows	7.7	68.8	39.0	24.4	139.9	8.6	148.5	173.4	321.9
Gross outflows	(7.2)	(25.4)	(42.1)	(24.4)	(99.1)	(6.9)	(106.0)	(161.0)	(267.0)
Net flows	**0.5**	**43.4**	**(3.1)**	**–**	**40.8**	**1.7**	**42.5**	**12.4**	**54.9**
Acquisitions	0.6	–	–	–	0.6	2.7	3.3	–	3.3
Investment returns[1]	0.8	4.9	4.9	15.7	26.3	2.1	28.4	7.0	35.4
Transfers	–	1.2	–	–	1.2	(1.2)	–	–	–
31 December 2020	**46.1**	**192.3**	**104.2**	**159.8**	**502.4**	**72.0**	**574.4**	**88.6**	**663.0**

[1] Includes currency movements which increased AUM by around £5.8 billion.

Client investment performance

Client investment performance is a measure of how investments are performing relative to a benchmark or other comparator. It is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our invested assets are performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. All calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking. When a product's investment performance is disclosed in product or client documentation it is specific to the strategy or product. Performance will either be shown net of fees at the relevant fund share-class level or it will be shown gross of fees with a fee schedule for the strategy supplied.

	Percentage of assets outperforming		
	One year	**Three years**	**Five years**
To 31 December 2020	**75%**	**72%**	**81%**
To 31 December 2019*	70%	70%	72%

* Restated to include additional Solutions and Wealth Management assets.

The calculation includes virtually all applicable assets under management that have a complete track record over the one year, three years and five years reporting periods. Where performance figures are stated to 31 December 2019 they have been restated to include Wealth Management and Solutions assets in line with the five business areas aligned to our strategic priorities.

Applicable assets under management excludes £32.5 billion of assets, principally comprising those managed by third parties, hotel assets managed by Algonquin and Wealth Management assets held on a custody-only, advisory or execution-only basis.

Performance is calculated relative to the relevant comparator for each investment strategy as summarised below. These fall into one of four categories, the percentages for each of which refer to the three year calculation:

- For 74% of assets included in the calculation, the comparator is the relevant benchmark.
- If the relevant comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 9% of assets in the calculation.
- Assets for which the relevant comparator is an absolute return target are measured against that absolute target. This applies to 9% of assets in the calculation.
- Assets with no specific outperformance objective, including those with a buy and maintain objective, that are measured against a cash alternative, if applicable. This applies to 8% of assets in the calculation.

Consolidated income statement

for the year ended 31 December 2020

		2020			2019		
	Notes	**Before exceptional items £m**	**Exceptional items[2] £m**	**Total £m**	Before exceptional items £m	Exceptional items[2] £m	Total £m
Revenue		2,512.7	–	2,512.7	2,537.0	–	2,537.0
Cost of sales		(453.1)	–	(453.1)	(484.6)	–	(484.6)
Net operating revenue	3	**2,059.6**	**–**	**2,059.6**	**2,052.4**	**–**	**2,052.4**
Net gain on financial instruments and other income	4	55.5	0.4	55.9	41.9	1.1	43.0
Share of profit of associates and joint ventures	10	64.1	(21.0)	43.1	30.5	(3.3)	27.2
Net income		**2,179.2**	**(20.6)**	**2,158.6**	**2,124.8**	**(2.2)**	**2,122.6**
Operating expenses	5	(1,476.9)	(71.2)	(1,548.1)	(1,423.6)	(74.4)	(1,498.0)
Profit before tax		**702.3**	**(91.8)**	**610.5**	**701.2**	**(76.6)**	**624.6**
Tax	6	(133.5)	9.0	(124.5)	(140.5)	11.6	(128.9)
Profit after tax[1]		**568.8**	**(82.8)**	**486.0**	**560.7**	**(65.0)**	**495.7**
Earnings per share							
Basic	7	**200.8p**	**(28.4)p**	**172.4p**	201.6p	(22.7)p	178.9p
Diluted	7	**197.2p**	**(27.9)p**	**169.3p**	198.0p	(22.2)p	175.8p
Total dividend per share	8			**114.0p**			114.0p

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.
[2] Please refer to notes 2 and 3 for a definition and further details of exceptional items.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Notes	**2020 £m**	2019 £m
Profit after tax[1]		**486.0**	**495.7**
Items that may or have been reclassified to the income statement:			
Net exchange differences on translation of foreign operations after hedging		37.8	(56.0)
Net gain on financial assets at fair value through other comprehensive income	4	1.4	6.3
Net gain on financial assets at fair value through other comprehensive income held by associates	10	0.1	–
Tax on items taken directly to other comprehensive income	6	(0.3)	(0.4)
		39.0	**(50.1)**
Items that will not be reclassified to the income statement:			
Net actuarial gain/(loss) loss on defined benefit pension schemes	14	30.4	(23.2)
Tax on items taken directly to other comprehensive income	6	(5.0)	4.0
		25.4	**(19.2)**
Other comprehensive income for the year, net of tax[1]		**64.4**	**(69.3)**
Total comprehensive income for the year[1]		**550.4**	**426.4**

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of financial position

at 31 December 2020

	Notes	**2020 £m**	2019 £m
Assets			
Cash and cash equivalents		3,469.6	2,660.3
Trade and other receivables	9	840.3	806.7
Financial assets	9	2,871.8	3,016.4
Associates and joint ventures	10	405.2	398.0
Property, plant and equipment	11, 12	590.9	652.3
Goodwill and intangible assets	13	1,208.0	1,133.4
Deferred tax		32.9	36.9
Retirement benefit scheme surplus	14	168.2	136.3
		9,586.9	**8,840.3**
Assets backing unit-linked liabilities			
Cash and cash equivalents		746.3	972.6
Financial assets		11,339.9	11,453.3
	9	**12,086.2**	**12,425.9**
Total assets		**21,673.1**	**21,266.2**
Liabilities			
Trade and other payables	9	927.7	921.7
Financial liabilities	9	4,085.2	3,531.1
Lease liabilities	12	397.2	425.3
Current tax		21.5	54.1
Provisions		26.4	32.2
Deferred tax		31.5	16.2
Retirement benefit scheme deficits		11.5	12.2
		5,501.0	**4,992.8**
Unit-linked liabilities	9	**12,086.2**	**12,425.9**
Total liabilities		**17,587.2**	**17,418.7**
Net assets		**4,085.9**	**3,847.5**
Total equity[1]		**4,085.9**	**3,847.5**

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of changes in equity

for the year ended 31 December 2020

		Attributable to owners of the parent								
	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2020		**282.5**	**124.2**	**(169.1)**	**128.4**	**106.1**	**3,308.8**	**3,780.9**	**66.6**	**3,847.5**
Profit for the year		–	–	–	–	43.1	433.2	476.3	9.7	486.0
Other comprehensive income[1]		–	–	–	37.2	0.1	26.5	63.8	0.6	64.4
Total comprehensive income for the year		**–**	**–**	**–**	**37.2**	**43.2**	**459.7**	**540.1**	**10.3**	**550.4**
Own shares purchased	16	–	–	(58.3)	–	–	–	(58.3)	–	(58.3)
Share-based payments		–	–	–	–	–	56.1	56.1	–	56.1
Tax in respect of share schemes	6	–	–	–	–	–	3.5	3.5	–	3.5
Other movements		–	–	–	–	0.2	(8.0)	(7.8)	6.3	(1.5)
Dividends	8	–	–	–	–	–	(311.7)	(311.7)	(0.1)	(311.8)
Transactions with shareholders		**–**	**–**	**(58.3)**	**–**	**0.2**	**(260.1)**	**(318.2)**	**6.2**	**(312.0)**
Transfers		**–**	**–**	**67.6**	**–**	**(15.9)**	**(51.7)**	**–**	**–**	**–**
At 31 December 2020		**282.5**	**124.2**	**(159.8)**	**165.6**	**133.6**	**3,456.7**	**4,002.8**	**83.1**	**4,085.9**

[1] Other comprehensive income reported in the net exchange differences reserve comprises the net foreign exchange gain on the translation of foreign operations net of hedging. Other comprehensive income reported in the associates and joint ventures reserve represents post-tax fair value movements on financial assets at fair value through other comprehensive income. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial gain on the Group's retirement benefit scheme surplus and post-tax fair value movements on financial assets at fair value through other comprehensive income.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Notes	Attributable to owners of the parent								
		Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2019		**282.5**	**124.2**	**(163.9)**	**184.4**	**83.1**	**3,108.2**	**3,618.5**	**2.7**	**3,621.2**
Restatement on adoption of IFRS 16		–	–	–	–	–	(6.9)	(6.9)	–	(6.9)
At 1 January 2019 (restated)		**282.5**	**124.2**	**(163.9)**	**184.4**	**83.1**	**3,101.3**	**3,611.6**	**2.7**	**3,614.3**
Profit for the year		–	–	–	–	27.2	466.9	494.1	1.6	495.7
Other comprehensive income[1]		–	–	–	(56.0)	–	(13.3)	(69.3)	–	(69.3)
Total comprehensive income for the year		**–**	**–**	**–**	**(56.0)**	**27.2**	**453.6**	**424.8**	**1.6**	**426.4**
Own shares purchased	16	–	–	(81.0)	–	–	–	(81.0)	–	(81.0)
Share-based payments		–	–	–	–	–	61.6	61.6	–	61.6
Tax in respect of share schemes	6	–	–	–	–	–	5.2	5.2	–	5.2
Movements in ownership interests in subsidiaries[2]		–	–	–	–	–	127.3	127.3	48.4	175.7
Other movements		–	–	–	–	(0.7)	(55.6)	(56.3)	16.3	(40.0)
Dividends	8	–	–	–	–	–	(312.3)	(312.3)	(2.4)	(314.7)
Transactions with shareholders		**–**	**–**	**(81.0)**	**–**	**(0.7)**	**(173.8)**	**(255.5)**	**62.3**	**(193.2)**
Transfers		**–**	**–**	**75.8**	**–**	**(3.5)**	**(72.3)**	**–**	**–**	**–**
At 31 December 2019		**282.5**	**124.2**	**(169.1)**	**128.4**	**106.1**	**3,308.8**	**3,780.9**	**66.6**	**3,847.5**

[1] Other comprehensive income reported in the net exchange differences reserve comprises the net foreign exchange loss on the translation of foreign operations net of hedging. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial loss on the Group's retirement benefit scheme surplus and post-tax fair value movements on financial assets at fair value through other comprehensive income.

[2] Movements in ownership interests in subsidiaries, principally relates to a gain of £153.6 million on the sale of a 19.9% interest in the Group's UK Wealth Management business.

Consolidated cash flow statement

for the year ended 31 December 2020

	Notes	**2020 £m**	2019 £m
Net cash from operating activities	17	**832.5**	**1,002.0**
Cash flows from investing activities			
Net acquisition of businesses, associates and joint ventures		(18.3)	(152.4)
Net acquisition of property, plant and equipment and intangible assets		(92.8)	(142.9)
Acquisition of financial assets		(1,728.2)	(1,730.2)
Disposal of financial assets		1,974.2	1,841.2
Non-banking interest received		14.9	22.5
Distributions received from associates and joint ventures		1.5	3.5
Net cash from/(used in) investing activities		**151.3**	**(158.3)**
Cash flows from financing activities			
Purchase of subsidiary shares		(15.8)	(44.3)
Lease payments	12	(44.4)	(26.5)
Acquisition of own shares	16	(58.3)	(81.0)
Dividends paid	8	(311.8)	(314.7)
Other flows		(0.8)	(0.5)
Net cash used in financing activities		**(431.1)**	**(467.0)**
Net increase in cash and cash equivalents		**552.7**	**376.7**
Opening cash and cash equivalents		3,632.9	3,281.6
Net increase in cash and cash equivalents		552.7	376.7
Effect of exchange rate changes		30.3	(25.4)
Closing cash and cash equivalents		**4,215.9**	**3,632.9**
Closing cash and cash equivalents consists of:			
Cash and cash equivalents available for use by the Group		3,421.9	2,578.4
Cash held in consolidated pooled investment vehicles		47.7	81.9
Cash and cash equivalents presented within assets		**3,469.6**	**2,660.3**
Cash and cash equivalents presented within assets backing unit-linked liabilities		746.3	972.6
Closing total cash and cash equivalents		**4,215.9**	**3,632.9**

Explanatory notes to the financial statements

1. Presentation of the financial statements

(a) Basis of preparation

The financial information included in this statement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006 (Act). The statutory accounts for 2019 have been delivered to the Registrar of Companies and the auditor's opinion on those accounts was unqualified and did not contain a statement made under Section 498(2) or Section 498(3) of the Act. An unqualified auditor's opinion has also been issued on the statutory accounts for the year ended 31 December 2020, which will be delivered to the Registrar of Companies in due course.

The consolidated financial statements are prepared in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 and IFRS as adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

The presentation of the income statement includes separate disclosure of exceptional items. The policy for exceptional items is set out in note 2.

(b) Future accounting developments

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

2. Exceptional items

Exceptional items are significant items of income and expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate principally to items arising from acquisitions (including associates and joint ventures) undertaken by the Group, including amortisation of acquired intangible assets, certain one-off costs in 2020 relating to the Group's property estate, and in 2019, the cost reduction programme.

3. Segmental reporting

(a) Operating segments

The Group has three business segments: Asset Management, Wealth Management and the Group segment. The Asset Management segment principally comprises investment management including advisory services in respect of equity, fixed income, multi-asset solutions and private assets and alternatives products. The Wealth Management segment principally comprises investment management, wealth planning and financial advice, platform services and banking services. The Group segment principally comprises the Group's investment capital and treasury management activities, corporate development and strategy activities and the management costs associated with governance and corporate management.

Segmental information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision maker, the Group Chief Executive. The Wealth Management segment includes the Group's proportional share of the income and expenses of its 49.9% interest in Schroders Personal Wealth (SPW) on an individual account line basis. This reflects the basis on which the Group monitors the performance of the business. The adjustment column re-presents the results of SPW on a post-tax basis within share of profit of associates and joint ventures in accordance with the accounting standards.

Operating expenses includes an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in respect of particular business functions. This allocation provides management with the relevant information as to the business performance to effectively manage and control expenditure.

3. Segmental reporting (continued)

Year ended 31 December 2020	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
Revenue	2,182.6	393.3	–	2,575.9	(63.2)	2,512.7
Cost of sales	(435.4)	(26.4)	–	(461.8)	8.7	(453.1)
Net operating revenue	**1,747.2**	**366.9**	**–**	**2,114.1**	**(54.5)**	**2,059.6**
Net gain on financial instruments and other income	(9.8)	14.7	58.1	63.0	(7.5)	55.5
Share of profit of associates and joint ventures	49.5	1.1	–	50.6	13.5	64.1
Net income	**1,786.9**	**382.7**	**58.1**	**2,227.7**	**(48.5)**	**2,179.2**
Operating expenses	(1,213.6)	(272.2)	(39.6)	(1,525.4)	48.5	(1,476.9)
Profit before tax and exceptional items	**573.3**	**110.5**	**18.5**	**702.3**	**–**	**702.3**
Exceptional items presented within net income:						
Net gain on financial instruments and other income	0.4	–	–	0.4	–	0.4
Associates and joint ventures amortisation of acquired intangible assets and other costs	–	(21.0)	–	(21.0)	–	(21.0)
	0.4	**(21.0)**	**–**	**(20.6)**	**–**	**(20.6)**
Exceptional items presented within operating expenses:						
Amortisation of acquired intangible assets	(13.8)	(22.5)	–	(36.3)	–	(36.3)
Other expenses	(16.4)	(2.2)	(16.3)	(34.9)	–	(34.9)
	(30.2)	**(24.7)**	**(16.3)**	**(71.2)**	**–**	**(71.2)**
Profit before tax and after exceptional items	**543.5**	**64.8**	**2.2**	**610.5**	**–**	**610.5**

3. Segmental reporting (continued)

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
Revenue	2,217.9	334.0	–	2,551.9	(14.9)	2,537.0
Cost of sales	(454.8)	(31.9)	–	(486.7)	2.1	(484.6)
Net operating revenue	**1,763.1**	**302.1**	**–**	**2,065.2**	**(12.8)**	**2,052.4**
Net gain on financial instruments and other income	(5.4)	6.5	40.8	41.9	–	41.9
Share of profit of associates and joint ventures	23.5	1.0	4.1	28.6	1.9	30.5
Net income	**1,781.2**	**309.6**	**44.9**	**2,135.7**	**(10.9)**	**2,124.8**
Operating expenses	(1,174.3)	(222.1)	(38.1)	(1,434.5)	10.9	(1,423.6)
Profit before tax and exceptional items	**606.9**	**87.5**	**6.8**	**701.2**	**–**	**701.2**
Exceptional items presented within net income:						
Net gain on financial instruments and other income	1.1	–	–	1.1	–	1.1
Associates and joint ventures amortisation of acquired intangible assets and other costs	–	(3.3)	–	(3.3)	–	(3.3)
	1.1	**(3.3)**	**–**	**(2.2)**	**–**	**(2.2)**
Exceptional items presented within operating expenses:						
Amortisation of acquired intangible assets	(9.1)	(20.9)	–	(30.0)	–	(30.0)
Cost reduction programme	(22.3)	(5.7)	(1.0)	(29.0)	–	(29.0)
Other expenses	(11.1)	(4.7)	0.4	(15.4)	–	(15.4)
	(42.5)	**(31.3)**	**(0.6)**	**(74.4)**	**–**	**(74.4)**
Profit before tax and after exceptional items	**565.5**	**52.9**	**6.2**	**624.6**	**–**	**624.6**

3. Segmental reporting (continued)

(b) Net operating revenue by fee type is presented below:

Year ended 31 December 2020	**Asset Management £m**	**Wealth Management £m**	**Group £m**	**Segmental total £m**	**Adjustments £m**	**Group total £m**
Management fees	2,058.0	332.4	–	2,390.4	(63.2)	2,327.2
Performance fees	85.8	1.1	–	86.9	–	86.9
Carried interest	21.3	–	–	21.3	–	21.3
Other fees	17.5	42.6	–	60.1	–	60.1
Wealth Management interest income earned	–	17.2	–	17.2	–	17.2
Revenue	**2,182.6**	**393.3**	**–**	**2,575.9**	**(63.2)**	**2,512.7**
Fee expense	(422.9)	(23.3)	–	(446.2)	8.7	(437.5)
Change in financial obligations in respect of carried interest	(12.5)	–	–	(12.5)	–	(12.5)
Wealth Management interest expense incurred	–	(3.1)	–	(3.1)	–	(3.1)
Cost of sales	**(435.4)**	**(26.4)**	**–**	**(461.8)**	**8.7**	**(453.1)**
Net operating revenue	**1,747.2**	**366.9**	**–**	**2,114.1**	**(54.5)**	**2,059.6**

Year ended 31 December 2019	Asset Management £m	Wealth Management £m	Group £m	Segmental total £m	Adjustments £m	Group total £m
Management fees	2,140.3	253.2	–	2,393.5	(13.3)	2,380.2
Performance fees	42.9	0.9	–	43.8	–	43.8
Carried interest	23.4	–	–	23.4	–	23.4
Other fees	11.3	37.6	–	48.9	(1.6)	47.3
Wealth Management interest income earned	–	42.3	–	42.3	–	42.3
Revenue	**2,217.9**	**334.0**	**–**	**2,551.9**	**(14.9)**	**2,537.0**
Fee expense	(460.7)	(13.6)	–	(474.3)	2.1	(472.2)
Change in financial obligations in respect of carried interest	5.9	–	–	5.9	–	5.9
Wealth Management interest expense incurred	–	(18.3)	–	(18.3)	–	(18.3)
Cost of sales	**(454.8)**	**(31.9)**	**–**	**(486.7)**	**2.1**	**(484.6)**
Net operating revenue	**1,763.1**	**302.1**	**–**	**2,065.2**	**(12.8)**	**2,052.4**

3. Segmental reporting (continued)

(c) Net operating revenue by region is presented below based on the location of clients:

Year ended 31 December 2020	**UK £m**	**Continental Europe & Middle East £m**	**Asia Pacific £m**	**Americas £m**	**Segmental total £m**	**Adjustments £m**	**Group total £m**
Management fees	784.4	724.4	589.6	292.0	2,390.4	(63.2)	2,327.2
Performance fees	7.8	31.9	26.5	20.7	86.9	–	86.9
Carried interest	–	21.3	–	–	21.3	–	21.3
Other fees	37.1	14.0	8.9	0.1	60.1	–	60.1
Wealth Management interest income earned	14.5	2.3	0.4	–	17.2	–	17.2
Revenue	**843.8**	**793.9**	**625.4**	**312.8**	**2,575.9**	**(63.2)**	**2,512.7**
Fee expense	(59.8)	(175.6)	(171.4)	(39.4)	(446.2)	8.7	(437.5)
Change in financial obligations in respect of carried interest	–	(12.5)	–	–	(12.5)	–	(12.5)
Wealth Management interest expense incurred	(3.0)	(0.1)	–	–	(3.1)	–	(3.1)
Cost of sales	**(62.8)**	**(188.2)**	**(171.4)**	**(39.4)**	**(461.8)**	**8.7**	**(453.1)**
Net operating revenue	**781.0**	**605.7**	**454.0**	**273.4**	**2,114.1**	**(54.5)**	**2,059.6**

Year ended 31 December 2019	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Segmental total £m	Adjustments £m	Group total £m
Management fees	727.9	750.5	622.8	292.3	2,393.5	(13.3)	2,380.2
Performance fees	6.0	15.0	14.6	8.2	43.8	–	43.8
Carried interest	–	23.4	–	–	23.4	–	23.4
Other fees	32.1	10.1	6.6	0.1	48.9	(1.6)	47.3
Wealth Management interest income earned	34.3	6.6	1.4	–	42.3	–	42.3
Revenue	**800.3**	**805.6**	**645.4**	**300.6**	**2,551.9**	**(14.9)**	**2,537.0**
Fee expense	(58.1)	(194.9)	(180.4)	(40.9)	(474.3)	2.1	(472.2)
Change in financial obligations in respect of carried interest	–	5.9	–	–	5.9	–	5.9
Wealth Management interest expense incurred	(15.7)	(2.5)	(0.1)	–	(18.3)	–	(18.3)
Cost of sales	**(73.8)**	**(191.5)**	**(180.5)**	**(40.9)**	**(486.7)**	**2.1**	**(484.6)**
Net operating revenue	**726.5**	**614.1**	**464.9**	**259.7**	**2,065.2**	**(12.8)**	**2,052.4**

3. Segmental reporting (continued)

Estimates and judgements – revenue

Carried interest represents the Group's contractual right to a share of the profits of around 95 private asset investment vehicles (2019: 85 vehicles), if certain performance hurdles are met. It is recognised when the relevant services have been provided and it is highly probable that a significant reversal will not occur.

The amount of carried interest that will ultimately be received by the Group is dependent on the cash flows realised by the respective investment vehicles when the underlying investments are successfully disposed of. The resultant cash flows are assessed against the applicable performance hurdle, which is dependent on the capital invested and the timing and quantum of distributions to clients in the vehicle. For accounting purposes the outcome is discounted to determine the present value of the carried interest to be recognised.

The Group estimates the cash flows that will be received by the investment vehicles with reference to the current fair value of the underlying investments. Judgement is applied to determine certain assumptions used in the estimate. Those assumptions principally relate to the future growth and the timing of cash flows following the realisation of the underlying investments. No future growth is assumed, reflecting the uncertainty of future investment returns. The timing of distributions to clients is based on individual investment managers' expectations as to the realisation of cash flows from the successful disposal of the underlying individual securities.

The Group assesses the maturity of the respective investment vehicles by reference to the percentage of committed capital invested and original capital returned to clients. This helps the Group to understand whether a significant risk of reversal exists and to determine whether the revenue should be recognised or further constrained in accordance with the accounting standards.

Estimates and judgements – cost of sales

The crystallisation of financial obligations in respect of carried interest (carried interest payable) is contingent on the Group receiving the related revenue. The Group therefore applies the same estimates and judgements as those used to determine the present value of the carried interest receivable, as set out above, adjusted to reflect the portion that is payable to third parties. The actual amount payable at maturity will depend on the realised value of the carried interest receivable and may differ from the projected value. An increase in the growth rate of 3% would increase cost of sales by £2.8 million (2019: £3.2 million), although this would be smaller than the corresponding increase in revenue. An average acceleration/delay in crystallisation dates of one year would increase/reduce cost of sales by £1.6 million/£3.0 million (2019: £3.0 million/£2.4 million) and this amount would be lower than the corresponding increase/reduction in revenue.

4. Net gain on financial instruments and other income

	2020			2019		
Year ended 31 December	**Income statement £m**	**Other comprehensive income £m**	**Total £m**	Income statement £m	Other comprehensive income £m	Total £m
Net gain on financial instruments at fair value through profit and loss	**58.0**	**–**	**58.0**	**0.6**	**–**	**0.6**
Net gain arising from fair value movements	–	1.9	1.9	–	6.8	6.8
Net transfers on disposal	0.5	(0.5)	–	0.5	(0.5)	–
Net gain on financial assets at fair value through other comprehensive income	**0.5**	**1.4**	**1.9**	**0.5**	**6.3**	**6.8**
Net finance income	1.1	–	1.1	8.3	–	8.3
Other (loss)/income	(3.7)	–	(3.7)	33.6	–	33.6
Net gain on financial instruments and other income[1]	**55.9**	**1.4**	**57.3**	**43.0**	**6.3**	**49.3**
Net gain on financial instruments held to hedge employee deferred cash awards – presented within operating expenses (see note 5)	25.6	–	25.6	21.3	–	21.3
Change in financial obligations in respect of carried interest – presented within cost of sales (see note 3)	(12.5)	–	(12.5)	5.9	–	5.9
Net gain on financial instruments and other income – including amounts presented elsewhere	**69.0**	**1.4**	**70.4**	**70.2**	**6.3**	**76.5**

[1] Includes a credit of £0.4 million (2019: £1.1 million credit) of exceptional items.

5. Operating expenses

Operating expenses include:

Year ended 31 December	**2020 £m**	2019 £m
Salaries, wages and other remuneration	871.5	855.6
Social security costs	82.5	84.2
Pension costs	54.1	44.1
Employee benefits expense	**1,008.1**	**983.9**
Net gain on financial instruments held to hedge deferred cash awards	(25.6)	(21.3)
Employee benefits expense - net of hedging	**982.5**	**962.6**

The employee benefits expense net of hedging of £982.5 million (2019: £962.6 million) includes £7.8 million (2019: £35.3 million) that is presented within exceptional items. This comprises £7.8 million (2019: £6.3 million) arising from acquisitions completed by the Group and, in 2019, £29.0 million in relation to the cost reduction programme.

6. Tax expense

Analysis of tax charge reported in the income statement:

Year ended 31 December	**2020 £m**	2019 £m
UK current year charge	49.9	60.9
Rest of the world current year charge	69.3	67.7
Adjustments in respect of prior year estimates	(4.8)	(1.1)
Total current tax	**114.4**	**127.5**
Origination and reversal of temporary differences	0.5	(4.1)
Adjustments in respect of prior year estimates	5.0	2.5
Effect of changes in corporation tax rates	4.6	3.0
Total deferred tax	**10.1**	**1.4**
Tax charge reported in the income statement	**124.5**	**128.9**

Analysis of tax charge/(credit) reported in other comprehensive income:

Year ended 31 December	**2020 £m**	2019 £m
Current tax charge/(credit) on movements in financial assets at fair value through other comprehensive income	0.2	(1.1)
Deferred tax charge/(credit) on actuarial gains and losses on defined benefit pension schemes	5.6	(4.0)
Deferred tax (credit)/charge on other movements through other comprehensive income	(0.1)	1.5
Deferred tax - effect of changes in corporation tax rates	(0.4)	–
Tax charge/(credit) reported in other comprehensive income	**5.3**	**(3.6)**

6. Tax expense (continued)

Analysis of tax credit reported in equity:

Year ended 31 December	2020 £m	2019 £m
Current tax credit on Deferred Award Plan and other share-based remuneration	(2.7)	(2.6)
Deferred tax credit on Deferred Award Plan and other share-based remuneration	(0.5)	(2.6)
Deferred tax - effect of changes in corporation tax rates	(0.3)	–
Tax credit reported in equity	**(3.5)**	**(5.2)**

The UK standard rate of corporation tax for 2020 is 19% (2019: standard rate of 19%). The tax charge for the year is higher (2019: higher) than a charge based on the UK standard rate. The differences are explained below:

Year ended 31 December	2020 £m	2019 £m
Profit before tax	610.5	624.6
Less share of profit of associates and joint ventures	(43.1)	(27.2)
Profit before tax of Group entities	**567.4**	**597.4**
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK standard rate	**107.8**	**113.5**
Effects of:		
Different statutory tax rates of overseas jurisdictions	5.9	8.0
Permanent differences including non-taxable income and non-deductible expenses	10.0	1.7
Net movement in temporary timing differences for which no deferred tax is recognised	(4.0)	1.3
Deferred tax adjustments in respect of changes in corporation tax rates	4.6	3.0
Adjustments in respect of prior year estimates	0.2	1.4
Tax charge reported in the income statement	**124.5**	**128.9**

Estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. Liabilities relating to open and judgemental matters, including those in relation to deferred taxes, are based on the Group's assessment of the most likely outcome based on the information available. As a result, certain tax amounts are based on estimates using factors that are relevant to the specific judgement. The Group engages constructively and transparently with tax authorities with a view to early resolution of any uncertain tax matters. Where the final tax outcome of these matters is different from the amounts provided, such differences will impact the tax charge in a future period. Such estimates are based on assumptions made on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances, including local tax laws. There was no individual judgemental component of the tax expense that was material to the Group results when taking into account the likely range of potential outcomes.

7. Earnings per share

Reconciliation of the figures used in calculating basic and diluted earnings per share:

Year ended 31 December	**2020 Number Millions**	2019 Number Millions
Weighted average number of shares used in the calculation of basic earnings per share	276.2	276.2
Effect of dilutive potential shares – share options	5.0	4.8
Effect of dilutive potential shares – contingently issuable shares	0.1	0.1
Weighted average number of shares used in the calculation of diluted earnings per share	**281.3**	**281.1**

The pre-exceptional earnings per share calculations are based on profit after tax excluding non-controlling interest of £14.2 million (2019: £4.0 million). After exceptional items, the profit after tax attributable to non-controlling interest was £9.7 million (2019: £1.6 million).

8. Dividends

	2021		**2020**		2019	
	£m	**Pence per share**	**£m**	**Pence per share**	£m	Pence per share
Prior year final dividend paid			216.0	79.0	216.5	79.0
Interim dividend paid			95.7	35.0	95.8	35.0
Total dividends paid			**311.7**	**114.0**	**312.3**	**114.0**
Current year final dividend recommended	**216.3**	**79.0**				

Dividends of £10.4 million (2019: £9.8 million) on shares held by employee benefit trusts have been waived and dividends may not be paid on treasury shares. The Board has recommended a 2020 final dividend of 79.0 pence per share (2019 final dividend: 79.0 pence), amounting to £216.3 million (2019 final dividend: £216.0 million). The dividend will be paid on 6 May 2021 to shareholders on the register at 26 March 2021 and will be accounted for in 2021.

In addition, the Group paid £0.1 million of dividends to holders of non-controlling interests in subsidiaries of the Group during 2020 (2019: £2.4 million), resulting in total dividends paid of £311.8 million (2019: £314.7 million).

The Company offers a dividend reinvestment plan (DRIP). The last date for shareholders to elect to participate in the DRIP for the purposes of the 2020 final dividend is 14 April 2021. Further details are contained on the Group's website.

9. Fair value measurement disclosures

Estimates and judgements

The Group holds financial instruments that are measured at fair value. The fair value of financial instruments may be derived from readily available sources or may require some estimation. The degree of estimation involved depends on the individual financial instrument and is reflected in the fair value hierarchy below. The hierarchy also reflects the extent of judgements used in the valuation but this does not necessarily indicate that the fair value is more or less likely to be realised. Judgements may include determining which valuation approach to apply as well as determining appropriate assumptions. For level 2 and 3 financial instruments, the judgement applied by the Group gives rise to an estimate of fair value. The approach to determining the fair value estimate of level 2 and 3 financial instruments is set out below, with no individual input giving rise to a material component of the carrying value for the Group. The fair value levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in pooled investment vehicles, quoted equities, government debt and exchange-traded derivatives;

- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, asset and mortgage backed securities, and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. The Group's level 3 financial assets principally comprise investments in private equity funds that are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018. Level 3 financial assets also include investments in property investment vehicles that operate hotel businesses. These are valued based on the expected future cash flows that could be generated from the hotel business. The Group's financial liabilities categorised as level 3 principally consist of obligations arising from contingent consideration, third party liabilities related to carried interest arrangements and other financial liabilities arising from prior acquisitions completed by the Group. The carrying values of level 3 financial liabilities are typically derived from an estimate of the expected future cash flows required to settle the liability.

9. Fair value measurement disclosures (continued)

The Group holds certain assets and liabilities at fair value. Their categorisation within the fair value hierarchy is shown below:

	2020				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Not at fair value £m**	**Total £m**
Financial assets at amortised cost:					
Loans and advances to banks	–	–	–	206.5	206.5
Loans and advances to clients	–	–	–	477.9	477.9
Debt securities	–	–	–	107.9	107.9
	–	**–**	**–**	**792.3**	**792.3**
Financial assets at fair value through other comprehensive income:					
Debt securities	343.0	246.5	–	–	589.5
	343.0	**246.5**	**–**	**–**	**589.5**
Financial assets at fair value through profit or loss:					
Loans and advances to clients	–	4.1	–	–	4.1
Debt securities	99.0	168.0	6.2	–	273.2
Pooled investment vehicles	668.5	62.8	108.8	–	840.1
Equities	293.7	21.5	23.3	–	338.5
Derivative contracts	0.6	33.5	–	–	34.1
	1,061.8	**289.9**	**138.3**	**–**	**1,490.0**
Financial assets	**1,404.8**	**536.4**	**138.3**	**792.3**	**2,871.8**
Trade and other receivables	**3.1**	**–**	**–**	**837.2**	**840.3**
Assets backing unit-linked liabilities	**9,459.7**	**1,728.6**	**28.1**	**869.8**	**12,086.2**
	10,867.6	**2,265.0**	**166.4**	**2,499.3**	**15,798.3**
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,550.3	3,550.3
Deposits by banks	–	–	–	72.8	72.8
Other financial liabilities	–	–	–	5.5	5.5
	–	**–**	**–**	**3,628.6**	**3,628.6**
Financial liabilities at fair value through profit or loss:					
Derivative contracts	3.9	29.1	–	–	33.0
Other financial liabilities	279.9	–	143.7	–	423.6
	283.8	**29.1**	**143.7**	**–**	**456.6**
Financial liabilities	**283.8**	**29.1**	**143.7**	**3,628.6**	**4,085.2**
Trade and other payables	**178.0**	**–**	**–**	**749.7**	**927.7**
Unit-linked liabilities	**11,963.8**	**58.9**	**–**	**63.5**	**12,086.2**
	12,425.6	**88.0**	**143.7**	**4,441.8**	**17,099.1**

9. Fair value measurement disclosures (continued)

	2019				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial assets at amortised cost:					
Loans and advances to banks	–	–	–	350.2	350.2
Loans and advances to clients	–	–	–	398.5	398.5
Debt securities	–	–	–	67.0	67.0
	–	**–**	**–**	**815.7**	**815.7**
Financial assets at fair value through other comprehensive income:					
Debt securities	598.3	318.6	–	–	916.9
	598.3	**318.6**	**–**	**–**	**916.9**
Financial assets at fair value through profit or loss:					
Loans and advances to clients	–	4.6	–	–	4.6
Debt securities	4.4	213.6	5.6	–	223.6
Pooled investment vehicles	546.6	28.5	95.3	–	670.4
Equities	282.5	13.7	29.7	–	325.9
Derivative contracts	0.5	54.5	4.3	–	59.3
	834.0	**314.9**	**134.9**	**–**	**1,283.8**
Financial assets	**1,432.3**	**633.5**	**134.9**	**815.7**	**3,016.4**
Trade and other receivables	**5.4**	**–**	**–**	**801.3**	**806.7**
Assets backing unit-linked liabilities	**8,724.3**	**2,596.2**	**29.5**	**1,075.9**	**12,425.9**
	10,162.0	**3,229.7**	**164.4**	**2,692.9**	**16,249.0**
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,041.3	3,041.3
Deposits by banks	–	–	–	97.1	97.1
Other financial liabilities	–	–	–	7.3	7.3
	–	**–**	**–**	**3,145.7**	**3,145.7**
Financial liabilities at fair value through profit or loss:					
Derivative contracts	3.1	39.6	–	–	42.7
Other financial liabilities	187.6	–	155.1	–	342.7
	190.7	**39.6**	**155.1**	**–**	**385.4**
Financial liabilities	**190.7**	**39.6**	**155.1**	**3,145.7**	**3,531.1**
Trade and other payables	**161.5**	**–**	**–**	**760.2**	**921.7**
Unit-linked liabilities	**12,310.5**	**56.5**	**–**	**58.9**	**12,425.9**
	12,662.7	**96.1**	**155.1**	**3,964.8**	**16,878.7**

The fair value of financial assets at amortised cost approximates their carrying value. No financial assets were transferred between levels during 2020 (2019: none).

9. Fair value measurement disclosures (continued)

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

	2020			2019		
	Financial assets £m	**Assets backing unit-linked liabilities £m**	**Financial liabilities £m**	Financial assets £m	Assets backing unit-linked liabilities £m	Financial liabilities £m
At 1 January	134.9	29.5	155.1	116.4	37.3	154.4
Exchange translation adjustments	3.0	(0.9)	4.6	(2.4)	(1.8)	(2.9)
Net gain or loss recognised in the income statement	4.1	3.4	14.6	1.3	2.7	(12.0)
Additions	23.3	2.1	18.4	35.2	1.4	54.4
Disposals	(27.0)	(6.0)	(49.0)	(15.6)	(10.1)	(38.8)
At 31 December	**138.3**	**28.1**	**143.7**	**134.9**	**29.5**	**155.1**

10. Associates and joint ventures

	2020			2019		
	Associates £m	**Joint ventures £m**	**Total £m**	Associates £m	Joint ventures £m	Total £m
At 1 January	200.2	197.8	398.0	173.1	2.1	175.2
Exchange translation adjustments	2.0	(0.1)	1.9	(8.3)	(0.1)	(8.4)
Additions	0.2	2.5	2.7	12.6	196.3	208.9
Disposals	(34.3)	–	(34.3)	(0.7)	–	(0.7)
Profit/(loss) for the year after tax	48.5	(5.4)	43.1	26.9	0.3	27.2
Gains recognised in other comprehensive income	0.1	–	0.1	–	–	–
Other movements in reserves of associates and joint ventures	0.2	–	0.2	(0.7)	–	(0.7)
Distributions of profit	(5.9)	(0.6)	(6.5)	(2.7)	(0.8)	(3.5)
At 31 December	**211.0**	**194.2**	**405.2**	**200.2**	**197.8**	**398.0**

On 31 January 2020, the Group disposed of its 41.0% interest in RWC for £34.0 million. Peter Harrison disposed of his interest at the same time and on the same terms as the Group disposed of its interests. Also included in disposals are other movements in the carrying value of associates.

11. Property, plant and equipment

	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m
Cost				
At 1 January 2020	187.6	19.7	145.4	352.7
Exchange translation adjustments	–	–	0.9	0.9
Additions	4.9	–	14.0	18.9
Disposals	(3.8)	–	(2.8)	(6.6)
At 31 December 2020	**188.7**	**19.7**	**157.5**	**365.9**
Accumulated depreciation				
At 1 January 2020	(34.0)	(0.9)	(60.2)	(95.1)
Exchange translation adjustments	(0.1)	–	(0.2)	(0.3)
Depreciation charge	(19.6)	(0.4)	(19.6)	(39.6)
Disposals	3.0	–	2.2	5.2
At 31 December 2020	**(50.7)**	**(1.3)**	**(77.8)**	**(129.8)**
Net book value at 31 December 2020	**138.0**	**18.4**	**79.7**	**236.1**
Right of use assets (note 12)				354.8
Property, plant and equipment net book value at 31 December 2020				**590.9**

	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m
Cost				
At 1 January 2019	189.0	19.7	110.9	319.6
Exchange translation adjustments	(1.9)	–	(1.5)	(3.4)
Additions	3.7	–	39.4	43.1
Disposals	(3.2)	–	(3.4)	(6.6)
At 31 December 2019	**187.6**	**19.7**	**145.4**	**352.7**
Accumulated depreciation				
At 1 January 2019	(22.3)	(0.6)	(47.3)	(70.2)
Exchange translation adjustments	1.2	–	1.0	2.2
Depreciation charge	(14.3)	(0.3)	(16.6)	(31.2)
Disposals	1.4	–	2.7	4.1
At 31 December 2019	**(34.0)**	**(0.9)**	**(60.2)**	**(95.1)**
Net book value at 31 December 2019	**153.6**	**18.8**	**85.2**	**257.6**
Right of use assets (note 12)				394.7
Property, plant and equipment net book value at 31 December 2019				**652.3**

12. Leases

	2020		2019	
	Right-of-use assets £m	**Lease liabilities £m**	Right-of-use assets £m	Lease liabilities £m
At 1 January	394.7	425.3	411.9	418.3
Exchange translation adjustments	0.1	(0.7)	(4.0)	(6.0)
Additions and remeasurements of lease obligations	4.4	5.0	27.1	27.1
Lease payments	–	(44.4)	–	(26.5)
Depreciation charge	(44.4)	–	(40.3)	–
Interest expense	–	12.0	–	12.4
At 31 December	**354.8**	**397.2**	**394.7**	**425.3**

The depreciation charge and interest expense relating to leases are recorded within operating expenses.

13. Goodwill and intangible assets

	Goodwill £m	**Acquired intangible assets £m**	**Software £m**	**Total £m**
Cost				
At 1 January 2020	761.8	326.0	340.6	1,428.4
Exchange translation adjustments	16.6	5.4	0.6	22.6
Additions	33.3	31.4	73.9	138.6
Disposals	–	–	(1.9)	(1.9)
At 31 December 2020	**811.7**	**362.8**	**413.2**	**1,587.7**
Accumulated amortisation				
At 1 January 2020	–	(182.7)	(112.3)	(295.0)
Exchange translation adjustments	–	(1.2)	(0.6)	(1.8)
Amortisation charge for the year	–	(36.3)	(48.5)	(84.8)
Disposals	–	–	1.9	1.9
At 31 December 2020	**–**	**(220.2)**	**(159.5)**	**(379.7)**
Carrying amount at 31 December 2020	**811.7**	**142.6**	**253.7**	**1,208.0**

13. Goodwill and intangible assets (continued)

	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost				
At 1 January 2019	676.5	278.4	251.4	1,206.3
Exchange translation adjustments	(10.3)	(3.6)	(2.0)	(15.9)
Additions	104.5	51.2	99.8	255.5
Disposals	(8.9)	–	(8.6)	(17.5)
At 31 December 2019	**761.8**	**326.0**	**340.6**	**1,428.4**
Accumulated amortisation				
At 1 January 2019	–	(154.1)	(84.0)	(238.1)
Exchange translation adjustments	–	1.5	1.0	2.5
Amortisation charge for the year	–	(30.0)	(37.2)	(67.2)
Disposals	–	(0.1)	7.9	7.8
At 31 December 2019	**–**	**(182.7)**	**(112.3)**	**(295.0)**
Carrying amount at 31 December 2019	**761.8**	**143.3**	**228.3**	**1,133.4**

The Group acquired £29.1 million (2019: £49.9 million) of intangible assets as a result of business combinations completed in 2020. The Group also acquired £2.3 million (2019: £1.3 million) of customer contracts through Benchmark Capital that were not considered to be business combinations.

Estimates and judgements

The Group estimates the fair value of intangible assets acquired at the acquisition date based on forecast profits, taking account of synergies, derived from existing contractual arrangements. This assessment involves judgement in determining assumptions relating to potential future revenues, profit margins, appropriate discount rates and the expected duration of client relationships. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, is accounted for as goodwill.

At each reporting date, the Group applies judgement to determine whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and a full assessment determines that the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill acquired in a business combination is allocated to the cash-generating units (CGUs) that are expected to benefit from that business combination. For all relevant acquisitions, it is the Group's judgement that the lowest level of CGU used to determine impairment is segment level for Asset Management. The Benchmark Capital business within Wealth Management is assessed separately from the rest of Wealth Management. Of the total goodwill, £583.1 million (2019: £556.6 million) is allocated to Asset Management and £228.6 million (2019: £205.2 million) is allocated to Wealth Management, of which £68.1 million (2019: £66.1 million) relates to Benchmark Capital.

13. Goodwill and intangible assets (continued)

Estimates and judgements (continued)

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model using the Group's five-year strategic business plan cash flows. The key assumptions on which the Group's cash flow projections are based include long-term market growth rates of 2% per annum (2019: 2%), a pre-tax discount rate of 10% (2019: 10%), expected flows and expected changes to margins. The results of the calculations indicate that goodwill is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGUs is small. This is due to the amount of goodwill allocated to the relevant CGU relative to the size of the relevant future profitability estimate.

Movements in the growth rate and/or the discount rate of 1% would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years shows that the Group would have recognised no changes (2019: nil) to its goodwill asset in the year as a result of inaccurate projections.

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

14. Retirement benefit obligations

Movements in respect of the assets and liabilities of the UK defined benefit scheme, Schroders Retirement Benefits Scheme (the Scheme), are:

	2020 **£m**	2019 £m
At 1 January	1,001.5	951.2
Interest on assets	20.7	27.1
Remeasurement of assets	91.5	54.6
Benefits paid	(36.5)	(31.4)
Fair value of plan assets	**1,077.2**	**1,001.5**
At 1 January	(865.2)	(795.6)
Interest cost	(17.8)	(22.6)
Actuarial (losses)/gains due to change in demographic assumptions	(0.6)	6.4
Actuarial losses due to change in financial assumptions	(74.8)	(90.4)
Actuarial gains due to experience	12.9	5.6
Benefits paid	36.5	31.4
Present value of funded obligations	**(909.0)**	**(865.2)**
Net assets	**168.2**	**136.3**

14. Retirement benefit obligations (continued)

The principal financial assumptions used for the Scheme are:

	2020 %	2019 %
Discount rate	1.4	2.1
RPI inflation rate	2.8	3.1
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	2.7	3.0
Future pension increases (for benefits earned after 13 August 2007)	2.0	2.2

Average number of years a current pensioner is expected to live beyond age 60:	**Years**	Years
Men	28	28
Women	29	29

Average number of years future pensioners currently aged 45 are expected to live beyond age 60:	**Years**	Years
Men	29	29
Women	30	30

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

Estimates and judgements

The Group estimates the carrying value of the Scheme by applying judgement to determine the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. The most significant judgemental assumption relates to mortality rates, which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2019: 1.0%) per annum. An additional adjustment, an "A parameter" set to 0.25% (2019: 0.5%) per annum, allows for the typically higher rate of mortality improvement among members of the Scheme compared to general population statistics. The latest base mortality tables have been adopted with no scaling (2019: previously latest available base tables scaled back by 2.5% for men and 7.5% for women) following a scheme specific review of the membership data.

The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

15. Share capital and share premium

	Number of shares Millions	**Ordinary shares £m**	**Non-voting ordinary shares £m**	**Total shares £m**	**Share premium £m**
At 1 January 2020	282.5	226.0	56.5	282.5	124.2
At 31 December 2020	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2019	282.5	226.0	56.5	282.5	124.2
At 31 December 2019	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

	2020 Number of shares Millions	2019 Number of shares Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.5
	282.5	**282.5**

16. Own shares

Own shares include the Group's shares (both ordinary and non-voting ordinary) that are held by employee benefit trusts.

Movements in own shares during the year were as follows:

	2020 £m	2019 £m
At 1 January	(169.1)	(163.9)
Own shares purchased	(58.3)	(81.0)
Awards vested	67.6	75.8
At 31 December	**(159.8)**	**(169.1)**

During the year 2.4 million own shares (2019: 2.8 million own shares) were purchased and held for hedging share-based awards. 2.6 million shares (2019: 2.8 million shares) awarded to employees vested during the year and were transferred out of own shares.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2020			2019		
	Number of vested shares Millions	**Number of unvested shares Millions**	**Total Millions**	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.4	6.2	8.6	2.0	6.3	8.3
Non-voting ordinary shares	0.1	–	0.1	–	0.1	0.1
	2.5	**6.2**	**8.7**	**2.0**	**6.4**	**8.4**

17. Reconciliation of net cash from operating activities

	2020 £m	2019 £m
Profit before tax	610.5	624.6
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	168.8	138.7
Net gain on financial instruments	(71.6)	(28.3)
Share-based payments	56.1	61.6
Net release for provisions	(5.3)	(9.0)
Other non-cash movements	6.3	(20.9)
	154.3	**142.1**
Adjustments for which the cash effects are investing activities:		
Net finance income	(1.1)	(8.3)
Interest expense on lease liabilities	12.0	12.4
Share of profit of associates and joint ventures	(43.1)	(27.2)
	(32.2)	**(23.1)**
Adjustments for statement of financial position movements:		
Decrease in loans and advances within Wealth Management	77.8	198.8
Increase in trade and other receivables	(6.9)	(101.0)
Increase/(decrease) in deposits and client accounts within Wealth Management	453.6	(101.5)
Decrease in trade and other payables, other financial liabilities and provisions	(26.7)	(57.5)
	497.8	**(61.2)**
Adjustments for Life Company and consolidated pooled investment vehicles movements:		
Net decrease/(increase) in financial assets backing unit-linked liabilities	113.4	(795.6)
Net (decrease)/increase in unit-linked liabilities	(339.7)	1,170.0
Net (decrease)/increase in cash within consolidated pooled investment vehicles	(34.2)	48.8
	(260.5)	**423.2**
Tax paid	(137.4)	(103.6)
Net cash from operating activities	**832.5**	**1,002.0**

18. Business combinations

The Group completed three business combinations during the year.

On 31 July 2020, the Group acquired 51% of the issued share capital of Pamfleet Holdings (Hong Kong) Limited (Pamfleet), a real estate asset management business, for a total consideration of £16.2 million. The acquisition contributed £0.6 billion of Asset Management AUM and strengthens the Group's Private Asset capabilities.

On 18 December 2020, the Group acquired 100% of the issued share capital of Sand Aire Limited (Sandaire), a UK wealth management business, for a total consideration of £34.7 million. The acquisition contributed £2.4 billion of discretionary Wealth Management AUM and increases the Group's scale and capability for its UK private clients.

The Group completed one further acquisition during the year for £2.4 million. The acquisition contributed £0.3 billion of Wealth Management AUM.

Net assets acquired:	Pamfleet £m	Sandaire £m	Other £m	Total £m
Cash	4.4	2.7	0.4	7.5
Trade and other receivables	0.5	3.5	0.1	4.1
Trade and other payables	(2.3)	(6.0)	(0.2)	(8.5)
Tangible net assets	**2.6**	**0.2**	**0.3**	**3.1**
Goodwill	10.4	21.5	1.4	33.3
Intangible assets arising on acquisition	10.9	16.0	2.2	29.1
Deferred tax arising on acquisition	(2.1)	(3.0)	(0.4)	(5.5)
Non-controlling interest	(5.6)	–	(1.1)	(6.7)
Total	**16.2**	**34.7**	**2.4**	**53.3**

Satisfied by:				
Cash	16.2	33.7	1.5	51.4
Contingent consideration	–	1.0	–	1.0
Deferred consideration	–	–	0.9	0.9
Total	**16.2**	**34.7**	**2.4**	**53.3**

18. Business combinations (continued)

The goodwill arising on the acquisitions is attributable to the value arising from:

- Additional investment capabilities;
- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain activities.

Goodwill will not be deductible for tax purposes.

In the period between the acquisition dates and 31 December 2020, the three acquired businesses contributed £4.5 million to the Group's net income. The contribution to profit before tax and exceptional items was £1.5 million and exceptional costs of £0.8 million were incurred in respect of amortisation of the acquired intangible assets. Additionally, acquisition costs of £0.6 million were recorded within 'Operating expenses' and classified as exceptional in the Consolidated income statement.

If the acquisitions had been completed on 1 January 2020, the Group's pre-exceptional net income for the year would have been £2,193.8 million and the profit before tax and exceptional items for the year on the same basis would have been £705.3 million.

Estimates and judgements

The fair value of certain items of consideration, assets acquired and liabilities assumed requires some estimation. For intangible assets and contingent consideration payable, this estimation required assumptions regarding the level of future management fees that will be earned over the relevant period.

The net impact of changes to these assumptions would be to change the carrying value of individual assets and liabilities with a corresponding change to goodwill.

Key risks and mitigations

Our approach to risk management supports our strategic priorities

We are exposed to a variety of risks as a result of our global business activities. Effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. This was particularly important in 2020 given the market turbulence caused by Covid-19. We place significant focus on the integrity and good conduct of employees and doing the right thing for our stakeholders. Our risk management framework is underpinned by a strong control culture with clear oversight responsibilities.

Managing risk

The Board is accountable for risk and oversight of the risk management process. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on the business. Non-executive oversight of the risk management framework process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee. We embed risk management within all areas of the business at a Group and legal entity level. The Group Chief Executive and Group Management Committee (GMC), as the principal advisory committee to the Group Chief Executive, have responsibility for regularly reviewing the key risks we face. This includes their respective business areas identifying, monitoring and reporting in all legal entities on relevant risks and controls. They are also responsible for monitoring that individual behaviours reflect the culture and core values of the business. It is the responsibility of all employees to uphold the control culture of Schroders.

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group. Independent monitoring and reporting of risks and controls across the Group and at a legal entity level is undertaken by the second line. The Chief Financial Officer chairs the Group Risk Committee (GRC), which normally meets ten times a year. The GRC supports the Chief Financial Officer and GMC in discharging their risk management responsibilities. The committee is attended by the heads of Group Risk, Compliance, Legal and Internal Audit, chief operating officers and chief administrative officers from across the business, and senior management from Distribution, Investment, Product and Wealth Management. Other GMC members regularly attend. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and current exposures to our key risks and considers issues as they arise. The GRC is supported by a number of sub-committees, including the Conflicts of Interest committee and the Group Regulatory Oversight committee, which review and challenge risks and report significant risk matters to the GRC.

Lines of defence

The first line of defence against undesirable outcomes is the business functions themselves and the line managers across the Group. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks, including through the Risk and Control Assessment process.

Line management is supplemented by oversight functions, including Group Risk, Compliance, Legal, Governance, Finance, Tax and HR, which constitute the second line of defence. The compliance assurance programme reviews the effective operation of relevant key processes against regulatory requirements. Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors. The team also carries out thematic compliance monitoring work.

We maintain comprehensive insurance cover with a broad range of policies covering a number of insurable events.

Risk appetite

Risk appetite statements are set by the Board and cover all our key risks (excluding strategic risk as this risk type mainly comprises factors that are external to our operating model). They apply to Asset Management, Wealth Management and the Group itself. Tailored versions of the risk appetite statements have been created for some of our legal entities.

Each risk appetite statement is supported by a number of metrics and tolerances to quantify risk appetite and to enable us to provide an assessment of risk position against risk appetite. Risk position versus appetite is formally assessed on an annual basis and is reviewed and challenged by the GRC, GMC and Audit and Risk Committee prior to the Board.

The risk appetite statements and their supporting metrics and tolerances were reviewed in 2020 and a number of improvements were made. New metrics were added to reflect the changing business environment and to allow a more quantified assessment of risk.

Covid-19 response

Our response to the pandemic demonstrated the resilience of our employees and the strength of the infrastructure supporting our business processes. Our people worked extremely hard to meet our clients' needs and our systems coped well. There was no significant impact on business operations despite a significant number of staff working remotely at various times over the year. Prior to 2020, we had already started to evolve our Business Continuity Strategy primarily to a work from home model, with an initial focus on our London office. As changes to our infrastructure had already been made, we were very well positioned to switch to working from home with minimal disruption.

Key highlights from our Covid-19 response
Our response was governed by the Crisis Management Team (CMT) which met regularly from January to May. A key focus of the CMT was protecting the welfare of our employees and ensuring we could continue to deliver the standard of service our clients expect. The central co-ordination of the response by the CMT, combined with the response of regional Incident Management Teams and a level of office autonomy, meant we were able to flex our approach at a regional and office level dependent on government guidance and level of infection.
Our systems performed well and our IT environment remained stable throughout the pandemic. In order to further support colleagues who were working from home, we increased our internet capacity from 2GB to 10GB. We also enhanced our remote working capabilities through upgrading our virtual conferencing capabilities and rolling out a collaboration platform.
The delivery of the annual business continuity programme is reliant on a framework of business continuity co-ordinators and plan owners across the business. They played a key role in our response by ensuring effective co-ordination of activities across the business, which included capturing any additional technology requirements for home working and delivering our minimum viable presence approach (i.e. ensuring those staff who performed critical activities which could not be undertaken from home were in the office).
We quickly identified key suppliers who, if impacted by Covid-19, could potentially have the most significant impact upon our own operations. For a six-week period, we implemented daily reporting from key suppliers. Once it was established that service performance was being maintained and any potential significant risks had been mitigated, the reporting moved to weekly and then monthly.
Our Risk and Control Assessments, already a core part of our operational risk framework, were key in enabling us to quickly assess the extent to which business processes and controls were impacted by the need to work from home, and therefore required additional or amended controls.
We supported our employees by sending approximately 900 laptops, monitors and other hardware to their homes, allowing them to maintain productivity.
Elevated liquidity risks, particularly during March 2020, highlighted the importance of our robust fund liquidity risk management framework. We were able to promptly identify, report and escalate areas where liquidity risk was heightened. We operated a cross-functional Liquidity Management Oversight meeting for information sharing, escalation of concerns and resolution of issues.
In consideration of the heightened market volatility we moved to more frequent monitoring of certain investment risk metrics and held more regular oversight meetings to review the risk and performance of portfolios. In addition, our Group Pricing Committee met regularly to consider pricing and valuation issues caused by the volatility.
We strengthened our communications to employees to help them feel supported and engaged. Our internal communications and employee interactions remained a key focus throughout 2020.
Our global offices were reconfigured to meet local government guidelines thereby allowing staff to safely return when and where this was permitted and appropriate.

Group Policies

Our control framework is underpinned by a set of Group policies, which are reviewed annually to ensure they remain relevant. Our approach is to have simple, principles-based policies that are adopted across the Group. This means our employees are supported with clear guidance on what they should and should not do, while similarly our service providers are briefed on the standards we expect them to adhere to. The Group policy framework helps our newly acquired businesses understand the culture of the Group and the parameters within which we expect them to operate.

2020 Developments

Whilst Covid-19 dominated much of the year, a number of other initiatives were undertaken during 2020 by Group Risk. Some of these are summarised below:

- A formal Operational Resilience Programme was established to build on our existing resilience capabilities. As part of this our key business processes are reassessed and stress tested to ensure we can continue to operate during extreme events.
- Alongside Information Security, we enhanced our data loss prevention approach through improvements to controls and data surveillance capabilities.
- The Risk and Control Assessment Process (summarised in the diagram below) continues to be a key part of our operational risk framework and assisted with our response to Covid-19. We improved the alignment of the Risk Event process and our Risk and Control Assessment Process to update the documentation of controls with the goal of minimising the re-occurrence of Risk Events.
- The Asset Class Risk & Performance Committees were enhanced by improving processes to review performance and by applying a broader range of methods for overseeing exposure concentrations. These committees are the primary venue for the first and second line functions to review and challenge risk and performance.
- We developed ESG risk toolkits for the investment risk assessment of portfolios. These are used for day-to-day risk oversight and formal review and challenge at the Asset Class Risk & Performance Committees.
- We conducted thematic investment risk reviews including active risk taking in portfolios and liquidity risk management.
- Our credit risk monitoring processes were enhanced with the addition of a new external provider that aggregates internal credit ratings from large banks and produces consensus ratings.
- A portal for identifying and monitoring negative news relating to counterparties was implemented to strengthen our credit risk management processes.
- We developed a dashboard for monitoring the governance arrangements associated with User Defined Tools. A User Defined Tool is a technology application created or modified outside the core Technology function.

Key risks

Assessment of key risks

We periodically assess the risks faced by our business and update the detail of the Group's key risks. This provides us with a good understanding of the risk profile of the Group, enabling our risks to be managed effectively. We have 19 key risks across Strategic, Business and Operational risk categories.

These risks have been assessed in light of the current environment (including Covid-19), geopolitical factors, market conditions, changing client demand and regulatory sentiment. We have taken into consideration the views of subject matter experts and risk owners within the business, and the working environments faced by our employees around the world. We monitor internal and external environments to identify new and emerging risks. We then analyse each risk and assess how this can be managed and mitigated.

The Group determines which key risks it considers to be heightened, for example those that are more costly if they materialised, and we then undertake further work to manage these actively. When considering these risks, we take into account the objectives of regulators to ensure market integrity, good conduct, appropriate consumer protection and the promotion of competition within the industry.

The following Key Risks are ranked within each category based on our combined assessment of the impact and likelihood of each occurring after our controls are applied.

Strategic risks

Impact for Schroders: These risks relate to our strategy and the environment in which we operate. If these risks are not carefully managed, our AUM and the income we therefore receive may be lowered. Our business plans seek to address these risks by responding to the challenges faced and growing our assets and earnings.

Risk	Description	How we manage risk
1. Changing investor requirements	Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect these changes could lead to a drop in AUM. This is notable in the Solvency II driven investment requirements of clients and the move from Defined Benefit to Defined Contribution pensions for example. ESG is a material part of our client considerations and we expect climate change risks to feature more heavily in future investment requirements and offerings.	We have intensified our focus on ESG by ensuring our investment criteria includes integration of ESG into the decision process, subject to local requirements, and we have launched thematic products related to Climate and Energy Transition. We continue to expand our capabilities in Private Assets & Alternatives, including a majority interest in an Asian-based Real Estate business, Pamfleet. Seed capital has been deployed in 22 new funds during 2020. We carefully manage our cost base to reflect our clients' changing asset allocation requirements investing in new products where client demand exists.
2. Fee attrition	Fee attrition caused by clients allocating more of their assets to passive products and a lower allocation to public markets, and a smaller pool of capital allocated to active fund managers resulting in increased competition on price. A move towards vertical integration can also impact revenues of investment managers as the pricing power may reside with the organisations that have the end client relationship.	We have continued to focus on Solutions and outcome-oriented strategies, and Private Assets & Alternatives, which diversify our fee income, increasing our AUM by £51 billion in these areas over the year. We are also increasingly diversifying our product offering, supporting long-term profitability.

Remained the same   Increased   Decreased

Risk	Description	How we manage risk
3. Market returns	Our income is derived from the value of assets we manage. Falling markets reduce our AUM and therefore impact revenues. Market falls may be exacerbated by geopolitical risks and the currency in which the AUM is denominated. Current economic uncertainty with slowing global economies may also impact markets. The response of central banks may have a dependency on fiscal measures which could impact market returns. Greater co-operation across central banks may be required, at a time when economies are becoming more inward looking. Capital investment may be targeted at domestic growth rather than being allocated to cross border initiatives.	We have diversified income streams across a range of markets to mitigate falling markets in any one area. We now have 54% of AUM from Solutions, Private Assets & Alternatives and Wealth Management up from 51% in 2019. Our focus on growing our Private Assets & Alternatives product range allows us to have a broader range of income streams which are less directly linked to markets. We have made key hires and management appointments in this part of the business to strengthen our leadership and drive growth in our product offering. The further development of our Wealth Management business, including the acquisition of Sandaire, a London-based family office, enables us to leverage the greater longevity and higher more sustainable margins that come with this business.
4. Business model disruption	Our business model could be disrupted by a range of external factors including technology advancements, product evolution and market participants. We see mass customisation of products coupled with changes in regulation such as the value assessment, requiring a response from asset managers, in addition to an increasing move to private markets.	We continue to deliver efficiencies and insights through technology. Digital initiatives are in progress to improve client experience, engagement and servicing. We are investing in our technology platform to support scalability, agility in our product offering and our expanding Private Assets & Alternatives business. A key focus on leveraging data by our Data Insights Unit has supported this.

Business risks

Impact for Schroders: In executing our strategy, a number of key risks arise that could impact our ability to attract and retain clients. By evolving our product offering and delivering investment performance, we have the best opportunity to be selected by clients when allocating assets. A failure to achieve this could lead to a decrease in AUM.

Risk	Description	How we manage risk
5. Reputational risk	This may arise from poor conduct, judgement or risk events due to weaknesses in systems or controls. The reputation of Schroders can be impacted by any of our key risks.	We consider reputational risks when initiating changes to our strategy or operating model and maintain high standards of conduct.
6. Investment performance risk	There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent performance.	We have clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in our business processes and governance.

Risk	Description	How we manage risk
7. Climate change risk	A failure to understand the pricing of assets affected by climate change due to declining cash flows from industries or a lower demand for impacted assets. This may lead to poor investment decisions, more volatile pricing as asset prices adjust to reflect the increasing regulation of carbon emissions and a failure to offer climate positive products impacting our performance, brand and reputation.	We have developed a range of proprietary tools to better understand the impacts of climate change on the portfolios we manage including a physical risk model and a transition risk model. We assess our corporate exposure to physical climate change risks and that of our supply chain and we actively monitor our emissions and have adopted targets to reduce our carbon footprint.
8. Financial instrument risk	We face market, credit, liquidity and capital risks from the instruments we use when managing AUM, as well as those arising from holding investments where we act as principal. The impact of financial instrument risks on our business may negatively affect our earnings (due to market, credit or liquidity risk) or ability to invest in our business (due to insufficient capital).	We manage capital, liquidity and the Group's own investments through Board-set limits and in the Group Capital Committee. Equity market risk in seed capital is hedged where it is economic and practicable to do so and foreign currency Group investments are hedged back to sterling. We monitor our credit and counterparty exposure in the Group balance sheet, bank lending portfolios and in our client assets.
9. Product risk	There is a risk that our product offering is not suitably diversified, or does not provide access to strategies that will help investors to meet their objectives. There is also the risk that products are not accurately described, or that they do not perform in alignment with their investment objective(s) for a sustained period. There is also the risk that product liquidity is not consistent with the product description, or the redemption requirements of investors.	Our dedicated Product and Solutions function focuses on strategy, innovation and changing investor requirements. In the first instance, identified risks are managed within the formal Product Governance Framework, which includes the Product Strategy Committee, Product Development Committee, Product Governance Committee and Capacity Committee. We have a liquidity risk management framework and monitor the liquidity of our products on an ongoing basis.
10. Business concentration risk	Insufficient diversification in distribution channels, products, clients, markets, or income streams could pose a risk to our business.	We have a broad range and scale of products, distribution and investment channels and our development of strategic relationships and acquisitions enables further diversification of income streams.

Operational risks

Impact for Schroders: Operational risks are inherent in all activities and processes. They exist in the normal course of business and are heightened when we undertake changes to our organisation. When operational risk events occur, this may affect our clients and our ability to serve them. We may be liable for financial losses or fines, which could affect our business performance and may weaken our standing with stakeholders.

Risk	Description	How we manage risk
11. Conduct and regulatory risk	The risk of inappropriate conduct, conflicts management practices or behaviours negatively impacting on client outcomes or markets and participants, or of failing to comply with existing or new regulations. This includes financial crime requirements.	We promote a strong compliance culture and seek to maintain good relationships with our regulators. We also encourage appropriate conduct and regulatory compliance via our conduct risk framework supported by compliance assurance programmes.
12. Process risk	The risk of failure of significant business processes, such as mandate compliance, trade execution for investment portfolios, client suitability checks, financial crime risk management and asset pricing.	Our key business processes are regularly reviewed and the risks assessed through the Risk and Control Assessment Process. When we undertake change, such as acquisitions, we assess new processes that may arise.
13. Business services resilience risk	The risk that we are unable to operate critical business services.	Our crisis management, business continuity and disaster recovery processes are tested regularly to ensure that we can respond and recover from extreme events.
14. Information security risk	The risk that our technology is compromised or inadequate, resulting in the confidentiality, integrity or availability of our data or Schroders' services being negatively impacted.	We have a dedicated Information Security function responsible for the design and operation of our information security risk framework. Information security risk is overseen by specialists within both the second and third line of defence and is monitored by the Information Security Risk Oversight Committee.
15. Fraud risk	Fraud could arise from any attempt to defraud the firm or our clients by circumventing our processes and controls.	Controls are in place, which are assessed as part of the Risk and Control Assessment Process. We continue to apply particular focus to our payment processes.
16. Legal risk	The risk that we, our clients, suppliers or other third parties fail to meet or record legal or regulatory obligations.	Our policies and procedures consider legal risk as part of their design. We have an escalation process for areas of material risk and our Legal function supports our employees and the business.
17. Technology risk	A change or failure in technology could pose a risk to the integrity or availability of the services we offer.	Policies and technical standards are deployed, together with robust project and change management processes, which cover the assessment of business requirements, risk and scalability.

18. Tax risk	We and the funds we manage are exposed to tax compliance, reporting and transactional risks, which include the submission of late or inaccurate tax returns.	Our tax strategy sets out our approach to managing our tax affairs, underpinned by a governance framework and supported by the Tax function, which works with management and advisers to monitor our position and relevant tax changes.
19. People and employment practices risk	The inability to attract, retain or develop key employees to support our business or maintain high standards in employment practices.	We have competitive remuneration and retention plans and build depth and strength in our workforce. We have sustainable succession and employee development processes and recruit selectively through our entry-level and experienced hire programmes.

Navigating the Future

The UK left the European Union on 31 January 2020 and entered a 'transition period' while the UK Government negotiated its future relationship with the EU. On 24 December 2020, both parties announced that they had reached agreement on a free trade agreement, the UK-EU Trade and Cooperation Agreement, with its terms taking effect immediately after the transition period concluded on 31 December 2020. As widely anticipated, the trade agreement does not make specific provision for financial services firms in the UK to continue to access the EU single market and, as a result, those firms lost those passporting rights.

Schroders was well positioned for such a no deal scenario for financial services. Our diversified business model and significant presence in the EU mean that we have been well placed without making significant changes to our operating models. We had obtained additional investment management permissions in Luxembourg to ensure that we can continue to offer the full range of investment services to all our clients. We had also made some structural changes to enable us to continue to manage our clients' assets regardless of their geographic location. Our aim throughout has been to ensure that our clients receive a seamless service.

We will continue to closely monitor future negotiations and regulatory developments with respect to financial services, including any frameworks for regulatory cooperation between the UK and the EU that might affect our business and our clients.

We have registered our Luxembourg fund ranges under the UK Financial Conduct Authority's temporary permissions regime to allow our EU based funds to continue to be offered to clients based in the UK for the foreseeable future.

Directors' responsibility statement

To the best of their knowledge and belief, each of the Directors listed below confirms that:

- The consolidated financial statements of Schroders plc, prepared in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 and IFRS as adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, which give a true and fair view of the assets, liabilities, financial position and profit of Schroders plc and the undertakings included in the consolidation taken as a whole;
- The announcement includes a fair summary of the development and performance of the business and the position of Schroders plc and the undertakings included in the consolidation taken as a whole and a description of the principal risks and uncertainties that they face;
- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have each taken all the steps that ought to have been taken by them as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors:

Michael Dobson	Chairman
Peter Harrison	Group Chief Executive
Richard Keers	Chief Financial Officer
Ian King	Senior Independent Director
Sir Damon Buffini	Independent non-executive Director
Rhian Davies	Independent non-executive Director
Rakhi Goss-Custard	Independent non-executive Director
Deborah Waterhouse	Independent non-executive Director
Matthew Westerman	Independent non-executive Director
Claire Fitzalan Howard	Non-executive Director
Leonie Schroder	Non-executive Director

3 March 2021

Five year consolidated financial summary

Before exceptional items	**2020 £m**	2019 £m	2018 £m	2017 £m	2016 £m
Profit before tax	702.3	701.2	761.2	800.3	644.7
Tax	(133.5)	(140.5)	(163.3)	(171.6)	(132.4)
Profit after tax	568.8	560.7	597.9	628.7	512.3

After exceptional items	**2020 £m**	2019 £m	2018 £m	2017 £m	2016 £m
Profit before tax	610.5	624.6	649.9	760.2	618.1
Tax	(124.5)	(128.9)	(145.2)	(165.8)	(127.9)
Profit after tax	486.0	495.7	504.7	594.4	490.2

Pre-exceptional earnings per share:	**2020 Pence**	2019 Pence	2018 Pence	2017 Pence	2016 Pence
Basic earnings per share[1]	200.8	201.6	215.8	226.9	186.3
Diluted earnings per share[1]	197.2	198.0	211.8	222.4	182.4

Post-exceptional earnings per share:	**2020 Pence**	2019 Pence	2018 Pence	2017 Pence	2016 Pence
Basic earnings per share[1]	172.4	178.9	183.1	215.3	178.3
Diluted earnings per share[1]	169.3	175.8	179.7	211.0	174.5

Dividends	**2020**	2019	2018	2017	2016
Cost (£m)	311.7	312.3	311.7	267.6	236.6
Pence per share[2]	114.0	114.0	114.0	98.0	87.0
Total equity (£m)	4,085.9	3,847.5	3,621.2	3,471.0	3,152.8
Net assets per share (pence)[3]	1,446	1,362	1,282	1,229	1,115

[1] See note 7 for the basis of this calculation.
[2] Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.
[3] Net assets per share are calculated by using the actual number of shares in issue at the year-end date.

Exchange rates – closing

31 December	**2020**	2019	2018	2017	2016
Sterling:					
Euro	1.12	1.18	1.11	1.13	1.17
US dollar	1.37	1.32	1.27	1.35	1.24
Swiss franc	1.21	1.28	1.26	1.32	1.26
Australian dollar	1.77	1.88	1.81	1.73	1.71
Hong Kong dollar	10.60	10.32	9.97	10.57	9.58
Japanese yen	141.13	143.97	139.73	152.39	144.12
Singaporean dollar	1.81	1.78	1.74	1.81	1.79
Chinese renminbi	8.89	9.23	8.74	8.81	8.59

Glossary

Annualised net new revenue	The net operating revenue that would be earned over a one year timeframe if the net new business was all transacted on the same day and there were no market movements or other changes to assets under management or fee rates over that year. It is calculated as gross new funds from clients multiplied by the applicable net operating revenue margin for each flow, less gross funds withdrawn multiplied by the applicable net operating revenue margin for each flow. This measure provides additional information to better assess the impact of net new business on the Group's net operating revenue.
Basic or diluted earnings per share before exceptional items	Profit after tax but before exceptional items divided by the relevant weighted average number of shares. The presentation of earnings per share before exceptional items provides transparency of recurring revenue and expenditure from our operational activities to aid understanding of the financial performance of the Group.
Net new business	New funds from clients less funds withdrawn by clients. This is also described as net inflows (when positive) or net outflows (when negative). New funds and funds withdrawn are calculated as at 31 December 2020 on the basis of actual funding provided or withdrawn.
Payout ratio	The total dividend per share in respect of the year divided by the pre-exceptional basic earnings per share.
Profit before tax and exceptional items	Profit before tax but excluding exceptional items. This presentation provides transparency of recurring revenue and expenditure from our operational activities to aid understanding of the financial performance of the Group.
Ratio of total costs to net income	Total Group costs before exceptional items divided by net income before exceptional items. A 65% ratio is targeted to ensure costs are aligned with net income, although we recognise that in weaker markets the ratio may be higher than our long-term target.
Total compensation ratio	Pre-exceptional compensation costs divided by pre-exceptional net income. By targeting a total compensation ratio of 45% to 49%, depending upon market conditions, we align the interests of shareholders and employees.