# Schroders plc
Annual Report
and Accounts 2013

## Targeting long-term value

Schroders

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Annual Report and Accounts 2013

At Schroders, asset management is our only business and our goals are completely aligned with those of our clients – the creation of long-term value to assist them in meeting their future financial requirements.

We manage £262.9 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset, alternatives and property.

We employ more than 3,500 talented people worldwide operating from 37 offices in 27 different countries across Europe, the Americas, Asia and the Middle East, close to the markets in which we invest and close to our clients.

Schroders has developed under stable ownership for over 200 years and long-term thinking drives our approach to investing, building client relationships and growing our business.

## Highlights

Assets under management

**£262.9 billion**

(2012: £212.0 billion)

Net new business

**£7.9 billion**

(2012: £9.4 billion)

Profit before tax and exceptional items*

**£507.8 million**

(2012: £360.0 million)

Profit before tax

**£447.5 million**

(2012: £360.0 million)

Shareholders' equity

**£2.3 billion**

(2012: £2.1 billion)

Basic earnings per share

**130.6 pence**

(2012: 104.7 pence)

Total dividend per share

**58.0 pence**

(2012: 43.0 pence)

* See note 1(c) on page 100 for details of exceptional items

**Cover image**
This has been taken from a Schroders marketing campaign that denotes our trusted heritage and advanced thinking.

**Annual General Meeting**
Our Annual General Meeting will be held at 11.30 a.m. on 1 May 2014 at 31 Gresham Street, London EC2V 7QA.

**Dividend**
The Board is recommending a final dividend of 42.0 pence, payable on 7 May 2014. This brings the total dividend payable for the year to 58.0 pence.

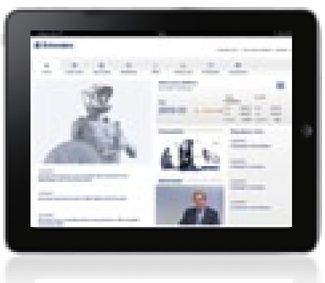
# Contents

## Strategic report

These sections along with our Financial review contained within the Financial report section (pages 86 to 97) form our Strategic report.







You can find more information about Schroders on our website www.schroders.com/ir or download our investor relations app.

Available on the App Store

# Schroders at a glance

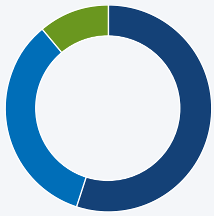
We have built a diversified business across client types, asset classes and regions. We believe this offers defensive characteristics at a time of challenging markets and above-average growth potential in the long term.

## We are diverse in terms of…

## Clients

We manage assets on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world. No client accounts for more than two per cent. of revenues.

### Assets under management



| | |
|---|---|
| Institutional | 55% |
| Intermediary | 34% |
| Wealth Management | 11% |

### Awards

**European Asset Management Firm of the Decade (2000 – 2010)**
*Financial News* Awards for Excellence in Institutional Asset Management

**Investment Innovation of the Year**
UK Pensions Awards 2013


**Investment Management Award Winner**
*Charity Times* Awards 2013

## We have a long-term focus…

**Creating enduring client relationships**
We seek to build long-term relationships with our clients and to gain a deep understanding of their investment objectives.

## Supported by a strong financial position…

At 31 December 2013, shareholders' equity was £2.3 billion. Maintaining a strong financial position enables us to take a long-term view of growth opportunities. We have no debt and hold capital significantly in excess of regulatory requirements.

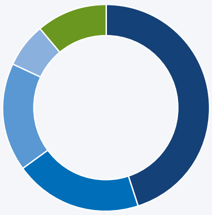
**£2.3 billion**

**Shareholders' equity** (2012: £2.1 billion)

# Assets

We invest in a broad range of asset classes across equities, fixed income, multi-asset, alternatives and property. In addition to institutional segregated mandates, we offer over 650 funds in 20 countries.

### Assets under management



| | |
|---|---|
| Equities | 45% |
| Multi-asset | 20% |
| Fixed Income | 17% |
| Emerging Market Debt, Commodities and Property | 7% |
| Wealth Management | 11% |

### Awards

**Best Multi-asset Fund House**
Morningstar UK

**Best Larger Equity House**
Morningstar UK

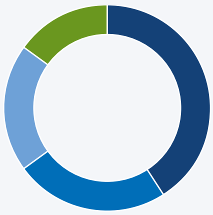
**Gold Award – Asia Pacific ex Japan Equity**
*Portfolio Adviser* Fund Awards 2013

**Winner UK Equities/UK Equity Small & Mid Cap**
Lipper Awards UK

# Geography

We operate from 37 offices in 27 different countries, managing local and international investment products for local and international clients.

### Assets under management



| | |
|---|---|
| UK | 41% |
| Asia | 24% |
| Europe and Middle East | 20% |
| Americas | 15% |

By client domicile

### Awards

**Fund Manager of the Year – Australia**
*Money Management/Lonsec* Awards

**Best Fund House Larger Equity Spain**
Morningstar Spain

**Winner UK Equity**
Lipper Awards Europe

**Winner UK Equity**
Lipper Awards Austria

See page 4 for more information

### Investing in innovation

We develop investment products and solutions to meet the changing needs of our clients. We also invest our own capital in building a track record in new investment strategies before bringing them to the market.

### Growing our business

We focus on the long term as we invest in future growth opportunities for our business.

Investment capital is the capital held in excess of operational and regulatory requirements. It allows us to invest in both organic and inorganic growth opportunities. Investment capital declined in 2013, following the acquisition of Cazenove Capital (see page 5).

**Investment capital**

| | £m |
|---|---|
| 2011 | 837 |
| 2012 | 926 |
| **2013** | **677** |

Schroders in London is rated Highest Standards by the independent ratings agency, Fitch. This is the highest possible rating for an asset manager and recognises our long history, diversified business model and financial stability.

In 2013, Schroders was again named one of 'Britain's most admired companies' for its financial strength by *Management Today*.

# Schroders around the world

Our worldwide investment and distribution capabilities give us good insights into local market opportunities in terms of investing for clients and building new client relationships.

**Key**

* Investment offices
† Wealth Management offices

Institutional assets
Intermediary assets
Wealth Management

Assets under management by client domicile.

## Americas

**Assets under management**

| | £bn |
|---|---|
| 2011 | 25.0 |
| 2012 | 30.6 |
| **2013** | **39.4** |

**Offices**

Bermuda
Buenos Aires*
Cayman Islands†
Mexico City
New York*
Philadelphia*
Santiago
São Paulo*

**Regional overview**

In 2013, we generated net inflows of £0.3 billion (2012: £3.5 billion) in the United States, Canada and Latin America.

**Key developments**

Growing our presence in the US is a strategic priority for Schroders. In April 2013, we acquired STW, a value-orientated, US investment-grade fixed income manager. We now manage £12.0 billion of US fixed income assets. STW broadened our product range and service platform and extended our US institutional client base.

STW

At 31 December 2013, STW managed £5.7 billion on behalf of more than 100 institutional clients.

Schroders' investment capability

**420** fund managers and analysts

**54** dealers based in…

**21** …investment centres

## UK

### Assets under management

| | £bn |
|---|---|
| 2011 | 69.8 |
| 2012 | 76.1 |
| **2013** | **106.8** |

### Offices

London*† Edinburgh† Jersey†
Chester† Guernsey*† Oxford†

### Regional overview

In 2013, we generated net inflows in the UK of £0.8 billion (2012: outflows of £0.2 billion). The acquisition of Cazenove Capital during the year, with assets under management of £20.1 billion on acquisition, was consistent with our strategy of growing both our Wealth Management and Intermediary businesses.

### Key developments

The reaction of clients has been very positive and Cazenove Capital won £2.0 billion of net new business across Intermediary and Wealth Management since the acquisition completed on 2 July 2013.

At 31 December 2013, Cazenove Capital had assets under management of £23.8 billion.

## Asia

### Assets under management

| | £bn |
|---|---|
| 2011 | 49.9 |
| 2012 | 57.6 |
| **2013** | **63.0** |

### Offices

Beijing Mumbai* Singapore*† Tokyo*
Hong Kong*† Seoul* Sydney*
Jakarta* Shanghai* Taipei*

### Regional overview

In 2013, we generated net inflows of £4.6 billion in Asia (2012: £3.5 billion), with a strong performance in both Institutional and Intermediary. In Australia, we won the *Money Management/Lonsec* Fund Manager of the Year award for the fifth consecutive year.

### Key developments

We saw significant inflows into our Asian Asset Income and Global Multi-asset Income funds during 2013, in particular from retail investors in Hong Kong, who were attracted by the diversified sources of income offered by both funds.

These funds are run by our Multi-asset team based in Hong Kong and assets under management totalled £3.7 billion at 31 December 2013.

## Europe and Middle East

### Assets under management

| | £bn |
|---|---|
| 2011 | 42.6 |
| 2012 | 47.7 |
| **2013** | **53.7** |

### Offices

Amsterdam Geneva*† Milan*† Zurich*†
Copenhagen Gibraltar† Paris
Dubai* Luxembourg Rome
Frankfurt*† Madrid† Stockholm*

### Regional overview

We generated net inflows in continental Europe and the Middle East of £2.2 billion in 2013 (2012: £2.6 billion), with a good performance in Institutional across the region. Towards the end of the year, we established a convertible bond capability in Zurich, complementing our capabilities in equities and fixed income.

### Key developments

In June 2013, we acquired 30 per cent. of Secquaero Advisors, an insurance-linked securities investment management business in Switzerland. This asset class is a growing investment category that we believe offers attractive risk-adjusted returns.

At 31 December 2013, we had insurance linked securities assets under management of over £270 million.

# Chairman's statement

Recognising our financial strength and confidence in our long-term growth prospects, the Board is recommending a 40 per cent. increase in the final dividend to 42.0 pence.

"Putting our clients at the centre of what we do and the stability of the Group over the long term have been key to Schroders' success."

2013 was a record year for Schroders. Profit before tax and exceptional items increased 41 per cent. to £507.8 million (2012: £360.0 million). After exceptional items, profit before tax increased 24 per cent. to £447.5 million. Basic earnings per share increased 25 per cent. to 130.6 pence (2012: 104.7 pence).

The acquisitions of STW Fixed Income and Cazenove Capital during the year strengthened our North American and Wealth Management businesses, both of which were identified as growth opportunities in the 2012 strategic review.

The Board's findings from the strategic review, which showed Schroders was positioned to perform well, have been validated. Our highly diversified business model, supported by a strong financial position and trusted reputation, has led to strong new business wins globally and across different asset classes. The Group's performance in 2013 is outlined in more detail in the Chief Executive's statement on page 10.

Our success has also translated into a strong performance for our shareholders with Schroders' ordinary share price increasing by 57 per cent. in 2013.

### Dividend

Our policy is to increase dividends progressively in line with the trend in profitability. Reflecting these record results, the Board will recommend to shareholders at the Annual General Meeting an increase in the final dividend of 40 per cent. taking the final dividend to 42.0 pence (2012: 30.0 pence). This will bring the total dividend for the year to 58.0 pence (2012: 43.0 pence), an increase of 35 per cent. The final dividend will be paid on 7 May 2014 to shareholders on the register at 28 March 2014.

### Regulatory change

Following changes made to the UK regulatory framework in April 2013, Schroders has new UK regulators with the creation of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

**Dividend per share**

| | pence per share |
|---|---|
| Interim | 16.0 |
| Final | 42.0 |
| **Full year** | **58.0** |

The final dividend is payable on 7 May 2014.

The separation of conduct regulation and prudential regulation means that conduct risk has become a key focus for the FCA and we welcome this. Putting our clients at the centre of what we do has always been a key part of Schroders' values and culture.

We recognise and support the need for better industry regulation and the role it plays in improving trust and enhancing market stability for the benefit of clients. Nonetheless the degree of regulatory change, in particular the considerable body of European and global regulation, continues to have a significant impact on the asset management industry. We are currently monitoring over 100 material regulatory developments as part of our engagement with over 30 regulators around the world.

We have invested heavily in our compliance and risk resources over the last two years. More information on the key regulatory changes that may impact the firm are on page 41.

## The Board

Richard Keers was appointed as Chief Financial Officer and joined the Board in May 2013. Richard's previous experience in PricewaterhouseCoopers' financial services practice from 1988 enables him to make a valuable contribution to the Group.

## People

During the year, an additional 517 employees joined Schroders, most as a result of the acquisitions of STW and Cazenove Capital. During the Board visit to New York in May, we had the opportunity to welcome personally the STW employees who have relocated to our New York office.

Our people are committed to the firm, sharing the Board's vision of being a world class asset and wealth manager and we can be proud of what we have achieved in 2013. Ensuring that we retain and develop a deep pool of diversified talent is one of our key strategic goals. This has been the key to Schroders' performance in recent years. On behalf of the Board, I should like to thank everyone that works for Schroders for their efforts in 2013. Each individual has made an important contribution in helping to deliver these record results.

**Andrew Beeson**
Chairman
5 March 2014

New headquarters for Schroders at One London Wall Place

In December 2013, we signed an agreement for lease on a new 310,000 sq. ft. building to be constructed at the intersection of London Wall and Moorgate in the City of London.

We expect to move into One London Wall Place in the second half of 2017. This move represents a unique opportunity to consolidate all our London-based employees in a single, modern working environment and in an excellent location.

# Disciplined

## Delivering competitive performance through disciplined investment processes and active engagement with companies in which we invest

Consistent and superior investment performance* is the key factor behind growth in net new business. We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

**68%** of assets under management outperformed over the three years to 31 December 2013

* See Glossary for definition.

# Chief Executive's statement

## 2013 was a record year for Schroders with profit before tax and exceptional items increasing by 41 per cent. to £507.8 million.

"We won net new business of £7.9 billion and assets under management ended the year up 24 per cent. at £262.9 billion."

In 2013 we achieved record levels of revenue, profit and assets under management and we completed two acquisitions in wealth management and fixed income, which bring new talent, client relationships and growth opportunities to the firm.

Net revenue in 2013 increased by 24 per cent. to £1,407.6 million (2012: £1,134.9 million) and profit before tax and exceptional items increased by 41 per cent. to £507.8 million (2012: £360.0 million). We won net new business of £7.9 billion and assets under management ended the year up 24 per cent. at £262.9 billion (2012: £212.0 billion).

In July, we acquired Cazenove Capital which transforms our position in wealth management and strengthens our UK retail funds business. Assets under management of £17.2 billion at the time the transaction was announced in March had increased to £23.8 billion by year end.

In April we acquired STW Fixed Income, a specialist US fixed income manager. STW brings 100 new institutional client relationships and £5.7 billion of assets under management at the end of 2013, and builds out our investment capabilities in the US with an excellent investment record in long duration bonds.

**Asset Management**

Asset Management net revenue increased 23 per cent. to £1,247.2 million (2012: £1,014.8 million) including performance fees which were sharply higher at £80.2 million (2012: £28.4 million) reflecting strong investment performance. Net revenue margins excluding performance fees were little changed on the year at 53 basis points (2012: 54 basis points). Profit before tax and exceptional items was up 34 per cent. at £468.6 million (2012: £348.5 million). Exceptional items of £13.5 million (2012: nil) related principally to the amortisation of the value of client relationships acquired with STW and Cazenove Capital, and integration costs arising from the two acquisitions.

A depth of investment talent across portfolio management and research, disciplined investment processes and active engagement with the companies in which we invest, has led to strong investment performance overall with 68 per cent. of funds outperforming benchmark or peer group over three years to the end of 2013 and 70 per cent. outperforming over one year.*

Net new business in Asset Management was £9.4 billion (2012: £9.7 billion), generated equally across Institutional and Intermediary, well diversified by region with net inflows in the UK, continental Europe, Asia Pacific and the Americas, and also diversified across a broad range of investment strategies. By asset class, we had another very strong year in Multi-asset with net inflows of £6.9 billion and in Equities with net inflows of £2.8 billion.

In Institutional we had net inflows of £4.6 billion (2012: £6.4 billion) with positive flows across multi-asset, equities, fixed income and alternative strategies. Assets under management in Institutional ended the year at £144.3 billion (2012: £123.7 billion).

In Intermediary we generated net sales of £4.8 billion (2012: £3.3 billion) with net inflows across all regions. By asset class, new business was concentrated in multi-asset income strategies and equities. The addition of the Cazenove Capital investment funds business has broadened our offering in the UK with a complementary range of UK and European equity, multi-manager and fixed income funds. Assets under management in Intermediary ended the year at £88.5 billion (2012: £72.0 billion).

In June, we acquired a 30 per cent. shareholding in Secquaero Advisors, a manager of insurance-linked securities which is a specialist fixed income asset class where we see growing demand from clients. In December, we established a convertible bond capability complementing our capabilities in equities and fixed income and we now manage approximately £1.4 billion in this asset class.

**Wealth Management**

As expected we saw a rebound in the performance of our Wealth Management business in 2013, reinforced by the acquisition of Cazenove Capital. Net revenue increased 59 per cent. to £150.0 million (2012: £94.4 million) and profit before tax and exceptional items was £34.3 million (2012: £11.8 million). Exceptional items of £30.9 million (2012: nil) included integration costs and the amortisation of client relationships acquired in relation to Cazenove Capital, and a provision of £15.0 million relating to a possible liability arising from an industry wide review by the US Department of Justice with regard to accounts held in Swiss banks that may not have been US-tax compliant. This provision relates principally to closed accounts.

Net outflows during the year amounted to £1.5 billion (2012: £0.3 billion) as a result of the expected loss of two large mandates in the second half. Assets under management ended the year at £30.1 billion (2012: £16.3 billion).

The acquisition of Cazenove Capital has significantly strengthened our position in Wealth Management bringing talent, scale, a complementary client base and a capability in financial planning. The response from clients has been very encouraging as we have brought together two businesses with a similar culture and client proposition. In the UK and the Channel Islands we will use the Cazenove Capital name in our Wealth Management business, while retaining the Schroders name in Switzerland and other international locations.

**Group**

The Group segment comprises returns on investment capital, including seed capital deployed in building a track record in new investment strategies, and various central costs. Profit before tax and exceptional items was £4.9 million (2012 loss: £0.3 million). Exceptional items of £15.9 million (2012: nil) comprise certain acquisition costs relating to Cazenove Capital and STW.

Shareholders' equity at the end of 2013 was £2.3 billion (2012: £2.1 billion).

**Outlook**

After a year of strong returns in developed equity markets, 2014 is likely to be more challenging for investors. However Schroders is well placed for further growth in the long term. We have a highly diversified international business serving institutional, intermediary and high net worth clients with the investment strategies and solutions that they need, competitive investment performance and a proven, global distribution capability.

**Michael Dobson**
Chief Executive
5 March 2014

For more information about our strategy go to page 18

* See Glossary for definition.

# Market developments: longer-term trends

Our diversity across investment strategies and regions, with access to higher growth markets and global distribution channels, has driven gross sales of over £70 billion in 2013.

"In the short term, there are encouraging signs of renewed investor confidence in equity markets."

**Massimo Tosato**
Executive Vice-Chairman and Global Head of Distribution

We have identified a number of key market trends that will continue to evolve through 2014 and beyond.

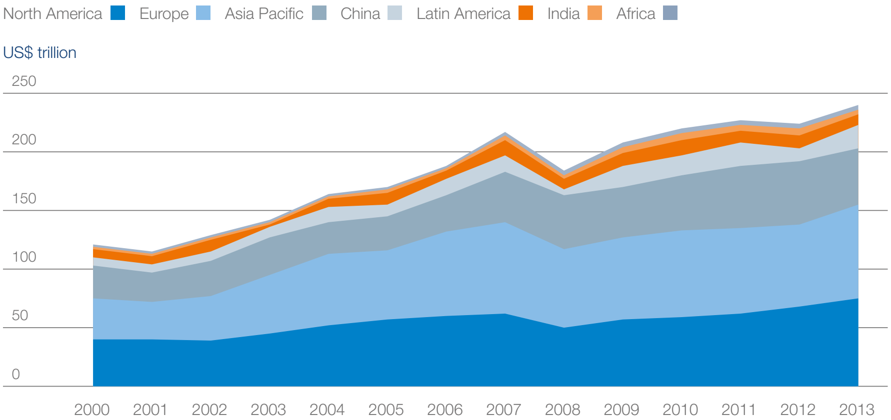
### Geographies and demographic trends

Established saving pools and mature markets, such as Europe and the US remain important to us and we expect the US to remain the largest market for our industry, representing almost 50 per cent. of global revenues. We have significantly increased our Distribution resources in the US over the last five years, consistent with it being a key geographic focus for strategic growth. We target the US to represent some 20 per cent. of assets under management over the next five years.

### Maturing defined benefit pension schemes

Within Institutional, defined benefit (DB) pension schemes are maturing, driven by the increasing longevity of an ageing population. We expect the value of Liability-Driven Investment (LDI) to double by 2017 and have developed our product range to help schemes that are de-risking (see case study on page 13).

**Total Global Wealth**
2000-2013, by region




Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2013.

### Continued growth in defined contribution

As defined benefit schemes mature, the industry continues to see a move to defined contribution pension schemes and individual personal savings are increasingly important.

This market is complex and fragmented globally, with increasing use of index-tracking products. We estimate that over 80 per cent. of defined contribution schemes' assets are invested in the default option. Our strategy is to target this area, through the development of innovative and price competitive products.

### Decumulation and the insurance channel opportunity

Insurance companies continue to be an increasingly important distribution partner and together with commercial banks, are likely to see the majority of decumulation flows that arise as individuals seek to finance retirement. We believe that the retirement of the generation born between 1946 and 1964, which owns a majority of global wealth, creates a major opportunity and could account for nearly 40 per cent. of available industry flows within mature economies.

We expect insurance companies to continue to outsource asset management and are targeting further growth in this area, particularly in Europe, as the insurance industry responds to Solvency II.

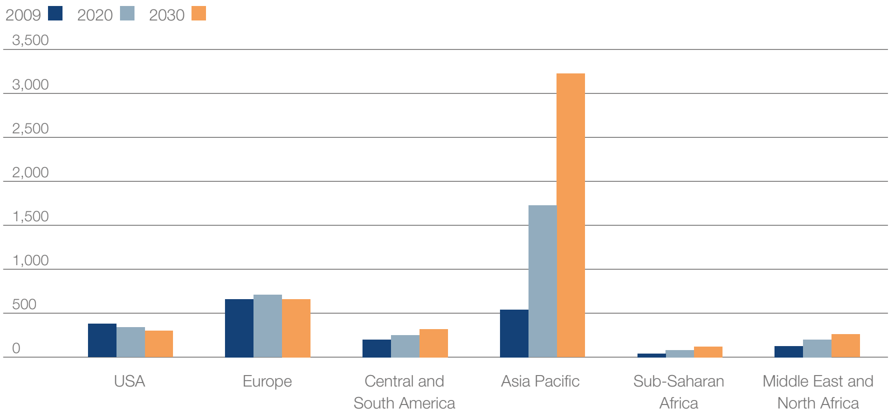
We have good relationships in the insurance sector in the UK and intend to expand this approach globally, by improving our specialist client service and sales teams in this area.

### Developing economies

In 2013, global wealth was estimated to be in excess of US$240 trillion, with 64 per cent. held in Europe and North America. Global growth is forecast to increase by 40 per cent. over the next five years and as developing markets tend to grow faster than developed economies, they are an increasingly important segment of the global economy and are expected to account for a greater share of world wealth.

Official institutions, such as sovereign wealth funds and central banks, will continue to accumulate surplus assets and they are an increasingly important institutional market segment.

**Global Middle Income Population**
Numbers (millions)




Source: OECD Development Centre

Asia, Latin America and the Middle East will continue to represent major growth opportunities for our business, with new savings flows driven by the emergence of a large and increasingly prosperous middle income population.

## Changes in client demand

We continue to see a shift in client demand, particularly in our Intermediary business, away from benchmark-focused funds to outcome-orientated, income, absolute return and benchmark-unaware strategies. These areas have seen some of our most successful products in recent years, most notably, in 2013, the Asian Asset Income and Global Multi-Asset Income funds (as explained on page 5). We will continue to target further growth in multi-asset solutions.

We also believe that investor demand for sustainable alpha will continue and we have developed our product range to address this trend. In the short term, the Schroders Global Investment Trends Report 2014 shows encouraging signs of renewed investor confidence in equity markets, with almost 60 per cent. of respondents planning to buy international equities in 2014.

## Regulatory change and complexity

Our key regulatory risks are outlined in the key risks section on page 41 and the extent of regulatory change globally remains significant. The regulatory change agenda is focused increasingly on conduct and culture within financial services firms, ensuring that the right products and services are provided to clients, as well as strengthening financial market infrastructure to enhance stability.

In the UK, the effect of the Retail Distribution Review (RDR) is increasing transparency for retail clients as fees are 'unbundled' and the market share of execution only platforms is growing. This is becoming a global theme. Towards the end of the year, the FCA also consulted on the use of brokerage commissions within the asset management industry.

In Europe, regulators are focusing on a series of measures to address issues related to investor protection, derivatives, risk management, transparency and governance. The regulation of European pooled funds continues to be a focus, with significant work required to prepare for the implementation of new rules governing alternative investment funds in 2014 and continued debate about changes to the UCITS regime.

## Pressure on revenue margins

As a conservatively-managed, well-capitalised firm, where integrity has always been a core principle of how we do business, we are well placed to manage these regulatory developments, although these changes increase the cost base of the industry and change the behaviour of distributors. As distributors look to maintain their margins this leads to downward pressure on asset manager revenue margins. We expect our Intermediary net revenue margins to decrease by approximately 15 per cent. over the next three years.

In recognition of this pressure, we are focused on improving the scale of our business. We believe that efficiencies can be achieved by growing scalable asset classes as client demand moves from regional to global strategies, with net sales concentrated in a small number of larger products. We have already seen success in this area, for example with our Quantitative Equity Products.

We will also continue to invest in our infrastructure and wider business for the long term to identify and secure operational efficiencies, streamlining and integrating processes. This will allow us to maintain our global institutional and wholesale coverage and excellent client service which we believe provides us with a competitive advantage while continuing to reward shareholders.

### 'Flight Path Swift' wins Investment Innovation of the Year Award

Higher costs and management requirements have historically meant that only larger defined benefit pension schemes have been able to access a tailored 'flight path' to achieve a better funding and lower risk position.

In May 2013, we launched Schroders 'Flight Path Swift', a new Liability-Driven Investment (LDI) solution to allow smaller pension schemes to access de-risking strategies in an affordable and straightforward way. A range of products and services from Schroders is blended to help clients achieve their investment objectives. A pension scheme's funding level is monitored on a daily basis with risk and growth assets reduced and liability risk protection increased when growth triggers are reached. This unique approach led to Flight Path Swift winning the award for Investment Innovation of the Year at the UK Professional Pensions Awards in 2013.

## Schroders is well placed to capitalise on the growth opportunities that exist within the wealth management sector.

“Wealth managers who understand the needs and preferences of their high net worth clients and design their businesses to meet those needs will have a competitive advantage.”

**Philip Mallinckrodt**
Group Head of Wealth Management

Within the wealth management sector, clients emphasise the importance of unbiased high quality advice; service excellence from people who are experts in their field; reputation; transparency of value; and depth of investment resource. We believe that Schroders is well placed to offer all of these attributes to our clients. We are able to offer an integrated service to high net worth clients to address their personal saving requirements, covering financial planning, investment management, deposit taking and lending.

### Wealth Management in the UK

There are over 187,000 high net worth individuals in the UK, each with investable assets of more than £1 million. The UK high net worth market is estimated at £1.2 trillion with modest growth expected over the next two to three years. London and the South East of England dominate the market, however, we also expect to see regional growth around the UK.

Client service is a key differentiator in the sector. We believe that client satisfaction is linked to the delivery of excellent investment performance and the ability to provide a full service offering, including advisory services, banking, financial planning and a strong investment process. A strong brand and reputation are also important in retaining and winning new business.

### International clients

London is increasingly a base for high net worth individuals worldwide. Our London business is supported by international subsidiaries to offer a global service and we see growth opportunities with clients from Europe, the Middle East and Asia.

In Europe, the outlook for the sector is more challenging, particularly in Switzerland, with increased regulatory and government pressure to reduce risk and maintain a high capital base. We expect these trends to impact the future growth potential of the sector over the next few years.

In 2010, the Asia Pacific region overtook Europe to become the second largest wealth management market in terms of both high net worth individuals’ wealth and population. In recognition of this trend, Schroders has a Wealth Management presence in both Singapore and Hong Kong.

### Our wealth planning capabilities

We enhanced our Wealth Management offering with the addition of a Financial planning team, as part of the acquisition of Cazenove Capital. Financial planning helps individuals to determine their short and long-term goals and create a balanced plan to meet those goals. As the financial landscape has changed in recent years, the importance of financial planning has increased as clients seek the best solutions for their investment needs.

Our team of 15 wealth planning specialists provides clients with an integrated and coordinated approach to most aspects of personal wealth management, covering areas such as retirement planning, investment structuring, financial protection, inheritance tax and estate planning.

# Market developments: 2013 overview

## Developed market equities increased 26 per cent. in 2013, benefiting from record low interest rates and a pick up in economic growth.

> After a strong performance in 2013, we believe that prospects for equities depend on continued profit growth and how companies choose to deploy their cash balances."

**Peter Harrison**
Head of Equities

**Equity markets**
Developed market equities made strong gains in 2013, with the MSCI World Index returning 26.2 per cent. The year started on a positive note after the US government reached an agreement on the fiscal cliff. US equities gained as economic data continued to improve over the course of the year, with encouraging trends in employment and the housing market.

In light of this stronger economic backdrop, the Federal Reserve announced in May that it was considering tapering its quantitative easing programme. This was not confirmed until December, with tapering starting in January 2014, and investors reacted positively to the statement that interest rates would remain at low levels for a significant time after the unemployment rate falls below 6.5 per cent. This helped US equities reach record highs at the end of the year, with the S&P Composite Index returning 29.6 per cent. in 2013.

Japanese equities saw some of the best returns as 'Abenomics' and the monetary stimulus programme led to a rapid fall in the yen that boosted exporters. Overall, the Nikkei Index returned 56.7 per cent.

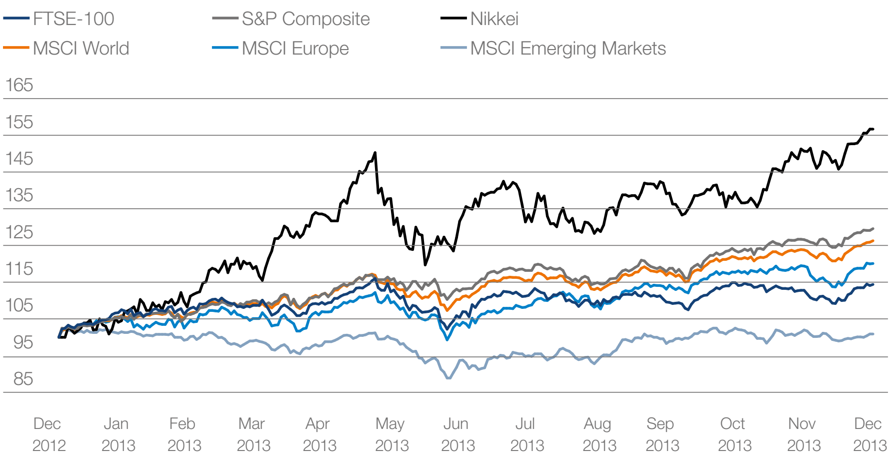
Eurozone shares were also strong as the economic backdrop stabilised. Germany was one of the best performers as its economy strengthened and Angela Merkel was re-elected as chancellor. European shares were supported by accommodative monetary policy from the European Central Bank, which cut interest rates to 0.5 per cent. in May and 0.25 per cent. in November. Overall, the MSCI Europe Index increased 20.1 per cent. during the year.

The FTSE-100 Index increased 14.4 per cent. in 2013 as the UK also experienced a pick up in economic growth, supported by a resurgent housing market.

Emerging markets fared less well as the prospect of a tapering of quantitative easing in the US led to concerns over reduced global liquidity and investors withdrawing from emerging markets. The MSCI Emerging Markets Index returned only 0.9 per cent. as many emerging market economies experienced slower growth, with stock markets in Turkey and Brazil registering some of the sharpest declines.

**Outlook**
Equities have been driven higher by a re-rating throughout 2013 and there is a question about how much further this can go. The performance of equities in 2014 will depend on profits growth, with US corporate profit margins already at record highs. Cash levels are also high and it will be important to see how companies choose to deploy this cash. Heightened levels of volatility will likely be an issue for most markets.

**Equities – world indices performance**



# Market developments: 2013 overview continued

**Karl Dasher**
Co-Head of Fixed Income

**Philippe Lespinard**
Co-Head of Fixed Income

> "Fixed income investments underperformed equities over the year as the prospect of the Federal Reserve reducing its bond purchases saw investors move away from the asset class."

**Philippe Lespinard and Karl Dasher**
Co-Heads of Fixed Income

### Fixed income markets

US Treasuries came under further pressure amid the first US government shutdown since the Clinton era and concerns over quantitative easing tapering. Global government bond markets also suffered as rising confidence in the global economic recovery saw investors favour riskier assets.

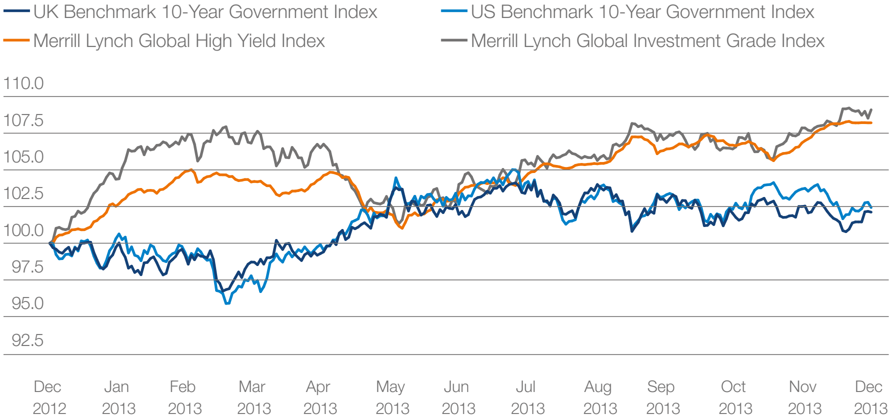
UK Gilt yields and US Treasury yields both rose to three per cent. by the end of the year. Riskier fixed income assets fared better, though still underperformed equities. The Bank of America Merrill Lynch Global High Yield Index returned 8.8 per cent. in the year.

### Outlook

We expect 2014 to be another year of volatility in bond markets as investors anticipate the continued wind-down of quantitative easing globally. Some sectors, such as emerging market debt and US municipals, have now priced in attractive real yields. Opportunities are also emerging in the US long-dated corporate market as US pensions move closer to a full funding position.

Our focus over the last five years on developing a robust range of unconstrained strategies will help us to navigate better the risks and opportunities for our clients.

**Fixed income performance**
%




> "While we continue to favour growth-orientated portfolios, we believe that a greater emphasis on downside risk management and wealth preservation will serve investors well in 2014."

**Nico Marais**
Head of Multi-asset and Portfolio Solutions

### Multi-asset

In 2013, central banks in the US, Japan, the UK and Europe made progress in generating economic recovery. Ample liquidity supported a rise in equities and price-earnings multiples expanded significantly. The main source of volatility during the year came from government bonds. The outlook for emerging markets was less clear than for their developed counterparts. Valuations across a range of assets have cheapened as prices, real exchange rates and yields have adjusted to the financial and economic challenges facing developing economies.

### Outlook

We expect further economic recovery, underpinned by liquidity from central banks, to continue to support equities. The outcome is by no means certain and simultaneous tightening by the US and China could slow global economic growth.

**“We believe that Emerging Market Debt offers excellent opportunities for attractive returns, but it is frequently subject to high levels of volatility.”**

**Geoff Blanning**
Head of Emerging Market Debt and Commodities

## Emerging Market Debt, Commodities and Currencies

2013 saw significant losses in many emerging market bonds and currencies. Local currency bonds in both Brazil and Indonesia fell close to 30 per cent., emerging market currencies fell against the US dollar, some by as much as 25 per cent. and external bonds suffered due to spread widening and a rise in the US 10-year bond yields. China and Turkey saw long-term growth drivers impaired on account of over-extended credit cycles, eroded competitiveness and external imbalances. These vulnerabilities were brought to the fore during 2013 as emerging market assets came under pressure.

We believe that Emerging Market Debt offers excellent opportunities for attractive returns, but it is frequently subjected to high levels of volatility and crises.

### Outlook

As asset class valuations generally improve, future return prospects are rising, although we remain cautious towards key countries such as Turkey and, most importantly, China, where patience is still required.

Commodity markets have lately been avoided by global investors, which is surprising given the consensus belief that the world economy is on a solid recovery path led by the US. Commodity prices have generally weakened in the past two to three years and investors in commodity-related funds have suffered significant losses, although we have mitigated the impact given strong risk management discipline. We believe that the tide will inevitably turn again in favour of this important asset class.

## Property

The performance of UK commercial property continued to improve throughout 2013. The Investment Property Databank ‘IPD monthly’ showed a return of 10.5 per cent. for the year and record investment volumes in the UK of £43.9 billion.

The prime market in London continued to outperform, but investors are also recognising value in other cities which offer good fundamentals and are benefiting from a more sustained economic recovery. Development of good quality commercial real estate in the UK is at very low levels and demand is driving up rents. This is good for market fundamentals and will increase income returns as well as capital values over the next two to three years.

Markets in continental Europe have been varied. A number of local and overseas investors are actively seeking new investments in the recovering German property market. Southern European markets, however, still see little improvement in occupational demand and rental levels are under downward pressure. As the last major European market to recover, returns in France are low and values may prove attractive for long-term investors.

### Outlook

We expect continued improvement in the UK property market. The consensus forecast is for unleveraged total returns of between 13-15 per cent. for this year. The risk is now on the upside but the ‘market average’ will still hide polarisation between winning cities and locations and those which may experience little, if any, recovery. While there are some downside risks in continental Europe, returns could be strong if sectors with good fundamentals are identified.

Visit Schroders Talking Point for market news and expert views **www.schroders.com/talkingpoint**

# Strategy

We are a global asset management business – diversified by asset class, sales channel and region. Our goals are aligned with those of our clients and shareholders – to create value over the long term.

| We achieve our goals by: | Measurable by: | Benefits: | Risks: |
|---|---|---|---|
|  **Delivering consistent and above-average performance through disciplined investment processes and active engagement with companies in which we invest** | – Targeting at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods. | Consistent and superior investment performance is a driver of growth in net new business. | Short-term performance can fall short of targets. |
|  **Building close relationships with clients** | – Levels of gross sales; and<br>– Levels of net new business. | Developing the investment products and solutions which meet our clients' needs will lead to increased new business opportunities. | Products that do not meet their objectives can put client relationships at risk. |
|  **Ensuring operational efficiency** | – Targeting a cost:net revenue ratio of between 65 and 70 per cent. over a market cycle; and<br>– Targeting a compensation cost:operating revenue ratio of between 45 and 49 per cent. over a market cycle. | We generate high levels of profit after tax to reward shareholders through increasing dividends and enable continued organic investment in our business. | Profitability is likely to decline during periods of market weakness. |
|  **Retaining and developing a deep pool of talent** | – Developing and training our employees; and<br>– Retaining employees performing at or ahead of expectations. | Retaining and developing talent is key to organisational stability and long-term success. | Talented people are frequently targeted by competitors searching to build their business. |
|  **Investing in future growth opportunities** | – Investment in both organic growth and acquisition opportunities throughout the market cycle, enabled by a strong financial position. | The long-term creation of shareholder value. | In the short term, particularly during periods of market weakness, profitability can be adversely affected. |

| Results: (key performance indicators are in bold) | 2013 | 2012 | Our expectations for 2014: |
|---|---|---|---|
| **The percentage of assets under management that outperformed over three years to 31 December*** (see 1, overleaf) | **68%** | 71% | We have the strongest investment resources in portfolio management and research the firm has ever had and we expect to meet our performance targets. We continued to deliver good investment performance in 2013 and continue to target at least 60 per cent. outperformance. |
| Gross sales | £75.6bn | £57.6bn | Net new business will be significantly influenced by market conditions, but with a broad product range and strong performance, we expect to generate net inflows in Institutional and Intermediary, and in Wealth Management. |
| **Net new business** (see 2, overleaf) | **£7.9bn** | £9.4bn | |
| **Cost:net revenue ratio** (see 5, overleaf) | **65%** | 70% | After the record results of 2013 these ratios may increase somewhat in 2014. |
| **Compensation cost:operating revenue ratio** (see 6, overleaf) | **46%** | 49% | |
| Employee training (number of sessions) | 11,648 | 7,940 | Retention has been unusually high during the last three years and could be affected by an improvement in market conditions which would cause competitors to recruit more actively. |
| Employee retention | 95% | 93% | |
| Operational capital | £1,070m | £957m | Seed capital deployed in building a track record in new investment strategies has increased during 2013 as we continue to develop new products and we expect it to remain at this level during 2014. |
| Investment capital | £677m | £926m | |
| of which: Seed capital investments | £182m | £156m | |

* See Glossary for definition.

# Key performance indicators

We use a number of key performance indicators to measure our performance over the long term.

A five-year view is shown below.

| Our objective: | How we performed: | Long-term performance: |
|---|---|---|

### 1. Investment performance*

We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

Investment performance has been above our target over the last five years.

| | % |
|---|---|
| 09 | 79 |
| 10 | 81 |
| 11 | 70 |
| 12 | 71 |
| **13** | **68** |

### 2. Net new business

We seek to generate positive net inflows in Institutional, Intermediary and Wealth Management.

Asset Management generated net inflows of £9.4 billion, offset by £1.5 billion of net outflows in Wealth Management.

| | £bn |
|---|---|
| 09 | 15.0 |
| 10 | 27.1 |
| 11 | 3.2 |
| 12 | 9.4 |
| **13** | **7.9** |

### 3. Assets under management (at 31 December)

The principal influence on assets under management is the level of markets, but we aim to grow assets under management over time in excess of market growth, through positive investment performance and net new business inflows.

Assets under management ended 2013 at a record level as a result of higher market levels, good investment performance, net new business inflows and acquired assets under management of Cazenove Capital and STW.

| | £bn |
|---|---|
| 09 | 148.2 |
| 10 | 196.7 |
| 11 | 187.3 |
| 12 | 212.0 |
| **13** | **262.9** |

### 4. Net revenue margins (excluding performance fees)

As a key driver of revenue, we focus on net revenue margins by product and by channel. As Institutional has grown, net revenue margins have declined but we benefit from greater client longevity in Institutional.

Net revenue margins reduced marginally to 54 basis points.

| | basis points |
|---|---|
| 09 | 61 |
| 10 | 60 |
| 11 | 57 |
| 12 | 55 |
| **13** | **54** |

* See Glossary for definition

Key performance indicators are used as a measure in the remuneration of executive Directors.

| Our objective: | How we performed: | Long-term performance: |
|---|---|---|

## 5. Cost:net revenue ratio

We target a cost:net revenue ratio of between 65 and 70 per cent. dependent on market conditions.

In 2013, this ratio decreased as we benefited from higher revenues and good cost control, while still investing in new talent, developing new products and markets, responding to regulatory initiatives and upgrading our IT infrastructure in Investment.

| | % |
|---|---|
| 09 | 78† |
| 10 | 67 |
| 11 | 66 |
| 12 | 70 |
| **13** | **65†** |

† before exceptional items

## 6. Compensation cost:operating revenue ratio

By targeting a compensation cost:operating revenue ratio over a market cycle, we align the interests of shareholders and employees. We target a compensation cost:operating revenue ratio of between 45 and 49 per cent. depending on market conditions.

This ratio decreased in 2013 despite our continued investment in new talent. Our headcount increased by 517 during the year as a result of the STW and Cazenove Capital acquisitions, as well as recruitment to support organic growth.

| | % |
|---|---|
| 09 | 49† |
| 10 | 45 |
| 11 | 44 |
| 12 | 49 |
| **13** | **46†** |

† before exceptional items

## 7. Earnings per share

We aim to grow earnings per share consistently, recognising the impact of market volatility on our operating businesses and Group investments.

Earnings per share increased significantly in 2013, reflecting the increase in profit before tax which reached a new record.

| | pence per share |
|---|---|
| 09 | 34.3 |
| 10 | 111.8 |
| 11 | 115.9 |
| 12 | 104.7 |
| **13** | **130.6** |

## 8. Dividend per share (in respect of the year)

Our policy is to increase the dividend progressively, in line with the trend in profitability.

The Board is recommending a final dividend of 42.0 pence per share, bringing the total dividend for the year to 58.0 pence per share, an increase of 35 per cent., recognising the record level of profit in 2013, our financial strength and the Board's confidence in the Group's long-term growth prospects.

| | pence per share |
|---|---|
| 09 | 31 |
| 10 | 37 |
| 11 | 39 |
| 12 | 43 |
| **13** | **58** |

# Our business model

Superior investment performance and excellent client service are key to growing assets under management.

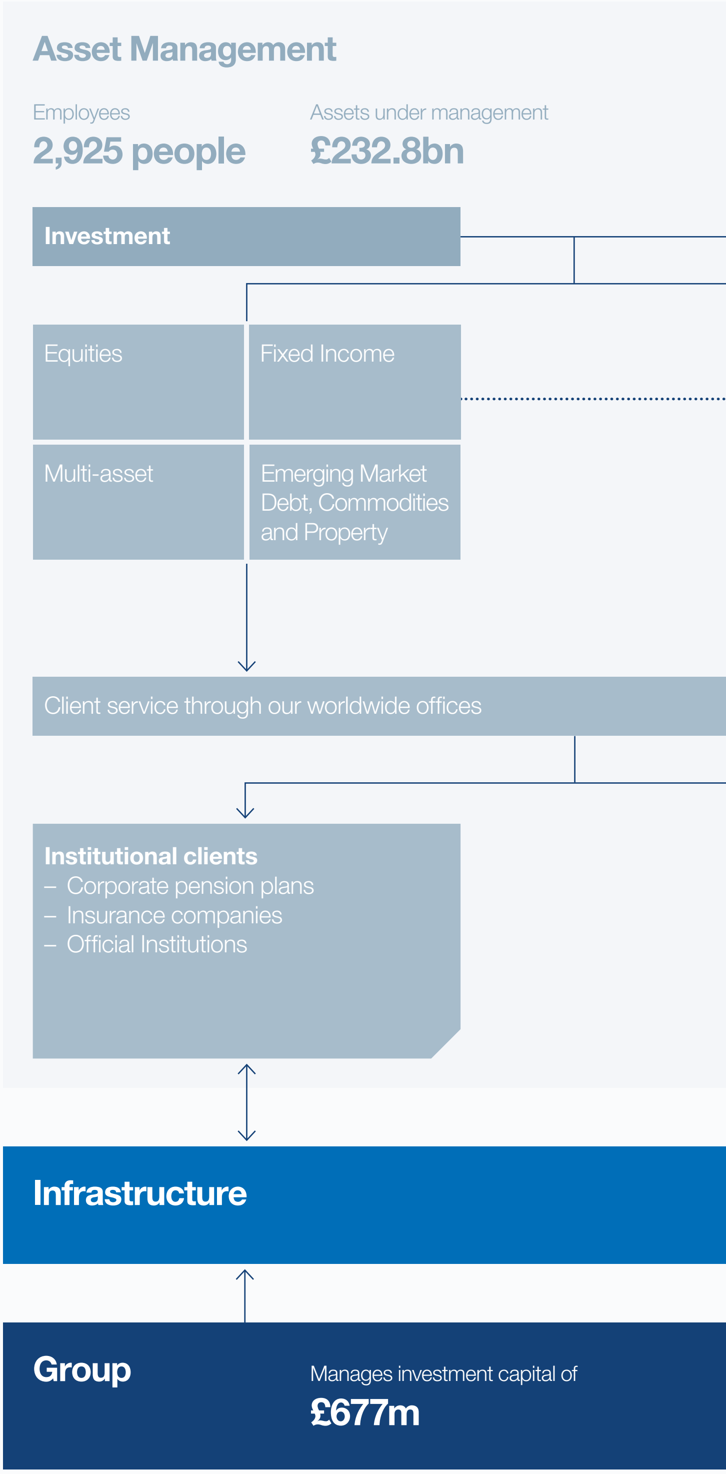
## Our business model

Schroders' objective is to add value to our clients' capital to help them meet their future needs. Clients include corporate and state pension funds, government funds, financial institutions, charities and individuals. Meeting the long-term financial needs of these clients has never been more important.

We strive to create innovative products and solutions which help clients meet their goals. Our success is linked inextricably to the success of our clients in that it is only by meeting their objectives that our business will prosper. Stemming from the stable ownership structure Schroders has enjoyed throughout its 210-year history, we have a long-term focus in relation to investing, building client relationships and growing our business.

For more information on our wider corporate responsibilities see page 42.

## Our operating segments



We have two operating segments: Asset Management and Wealth Management, which are supported by several infrastructure functions. The Group segment includes investment capital and treasury management activities.

See page 24

Distribution

Product development

Product specialist sales resources

Sales specialists, client servicing, marketing and communications

**Intermediary clients and relationships**
- Banks
- Independent financial advisers
- Insurance companies
- Individual pension plans
- Platforms

## Wealth Management

See page 26

Employees
**595 people**

Assets under management
**£30.1bn**

- Tier 1 capital ratio of 27 per cent.
- Highly personalised investment management service
- Customised investment solutions geared to client-specific financial goals

Portfolio management and wealth planning capability

Deposit taking and cash management

Custody and execution

Specialised lending

Wealth Management in 15 locations

**Wealth Management clients**
- High net worth individuals
- Family offices
- Charities

Supports the business in delivering superior investment performance and excellent client service. It consists of information technology, operations, finance, risk management, human resources, legal, compliance and internal audit.

The non-operating Group segment is focused on capital management, governance and corporate management.

Allocates capital to seed new investment strategies before bringing them to the Institutional or Intermediary market.

# Asset Management

## Investment

The Investment division comprises portfolio management, research and dealing functions across Equities, Fixed Income, Multi-asset and Emerging Market Debt, Commodities and Property. We have a broad range of products and solutions that meet investor demand at different phases of the economic and market cycle. All investment activities are managed with the aim of delivering performance that meets or exceeds client objectives within specific risk parameters. We primarily assess investment performance relative to benchmark and peer group over a rolling three-year period.

### Product range – by asset classes

#### Equities
(323 employees)

Equities includes single country, regional and global funds, small and mid-cap funds and defensive strategies to reduce market risk.

Assets under management
**£119.6bn**
(2012: £96.3bn)

| | |
|---|---|
| Asia Pacific | 16% |
| Australia | 6% |
| Emerging markets | 13% |
| Europe | 10% |
| Global | 12% |
| Japan | 3% |
| Other | 2% |
| Quantitative equities | 17% |
| UK | 17% |
| US | 4% |

**Investment capabilities**
- Asia Pacific
- Australia
- Emerging markets
- Europe
- Global
- Japan
- Mid and small cap
- Quantitative equities
- UK
- US

#### Fixed Income
(191 employees)

Fixed Income employs fundamental and quantitative approaches and is based on research-intensive, globally-integrated credit and macro capabilities.

Assets under management
**£43.4bn**
(2012: £37.6bn)

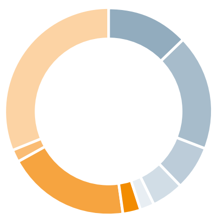
| | |
|---|---|
| Americas | 29% |
| Asia Pacific | 8% |
| Australia | 9% |
| Convertibles | 3% |
| Europe | 15% |
| Global | 24% |
| Insurance-linked | 1% |
| UK | 11% |

**Investment capabilities**
- Aggregate and multi-strategy
- Cash/liquidity
- Convertibles
- Credit
- Emerging market debt relative return
- Global
- Government
- High yield
- Insurance-linked securities
- Tax-exempt

#### Multi-asset
(118 employees)

Multi-asset offers a comprehensive range of customised solutions, pooled products and advisory services. We specialise in providing a consultative, solutions-based approach for clients.

Assets under management
**£52.3bn**
(2012: £42.8bn)



| | |
|---|---|
| Americas | 13% |
| Asia Pacific | 18% |
| Australia | 7% |
| Europe | 5% |
| Funds of hedge funds | 2% |
| GAIA range | 3% |
| LDI | 19% |
| Multi-manager | 2% |
| UK | 31% |

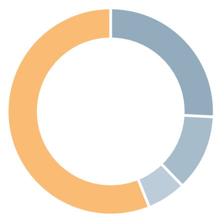
**Investment capabilities**
- Customised solutions
- Funds of hedge funds
- Liability-driven investments
- Multi-asset strategies
- Structured investments

#### Emerging Market Debt, Commodities and Property
(106 employees)

We manage emerging market debt, commodities, currency and agriculture funds.

Our Property business manages a wide range of open and closed-end property funds.

Assets under management
**£17.5bn**
(2012: £19.0bn)



| | |
|---|---|
| Agriculture and commodities | 26% |
| Emerging market debt | 12% |
| Private equity | 6% |
| Property | 56% |

**Investment capabilities**
- Agriculture
- Commodities
- Currencies
- Direct property
- Emerging market debt absolute return
- Gold and precious metals
- Private equity funds of funds
- Property securities

## Distribution

Distribution employs over 600 people globally, specialising in sales, client service, marketing, product development and product management, serving both Institutional and Intermediary sales channels.

Distribution works closely with Investment and is responsible for the development of our investment products, focusing particularly on the risk/reward features that deliver the intended results and meet the needs of our clients. We monitor gaps in our product range, launching new products and retiring products that are no longer in demand.

The majority of our Intermediary assets are in Luxembourg and UK funds. Domestic ranges in other countries are important to address local tax, regulatory or client requirements.

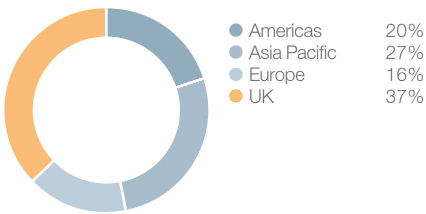
**20 countries**
**operate fund ranges**

**650**
**funds**

### Institutional clients

We manage segregated accounts for Institutional clients involving diverse strategies across equities, multi-asset, fixed income and alternatives.

Location by client domicile

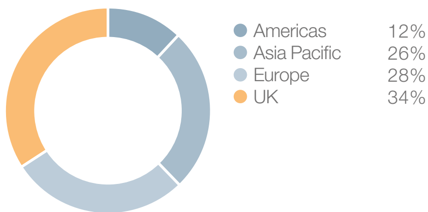



**Institutional clients**
- Corporate pension plans
- Endowments
- Government funds
- Insurance companies
- Local authority pension plans
- Sovereign wealth funds

### Intermediary clients

We work closely with both local and global distributors across Europe, Asia and the Americas to develop products which meet their retail clients needs over different stages of the market cycle.

Location by client domicile




**Intermediary clients**
- Banks
- Independent financial advisers
- Insurance companies
- Online platforms
- Private banks
- Private wealth managers

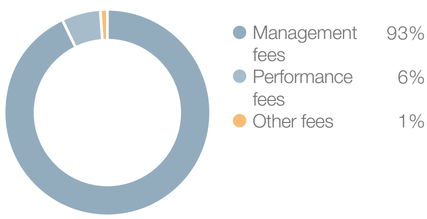
### Asset Management revenue and costs

Asset Management revenue primarily comprises fees charged as a percentage of assets under management. The level of assets under management changes as a result of net new business, investment performance and market levels. Revenue is also earned from performance fees and from transaction-related revenue. The revenue margin on assets under management is affected by the business mix with, for example, higher fees typically earned on equity mandates and lower fees earned on fixed income and multi-asset mandates, and fees in Intermediary generally exceeding those in Institutional.

Costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, legal and audit. In 2013, Asset Management generated net revenue of £1,247.2 million (2012: £1,014.8 million) and profit before tax and exceptional items of £468.6 million (2012: £348.5 million).

**£1,247.2m**
**Asset Management net revenue** (2012: £1,014.8m)

Asset Management net revenue 2013




For more information on the financial performance of Asset Management, see page 96.

## Infrastructure

Infrastructure operates across the Group and employs over 1,500 people in information technology, operations, finance, risk management, human resources, legal, compliance, corporate secretariat and internal audit. We are currently investing substantial sums to support our investors' evolving needs, enhance our client service capabilities, advance our risk management solutions and meet new regulatory requirements.

# Wealth Management

Wealth Management offers investment management, financial planning and specialist banking services, including liquidity management and occasional borrowing requirements, to high net worth individuals, family offices and charities.

It is predominantly a UK-centric, London-based business, for both domestic and international clients, supported by three principal international operations in the Channel Islands, Switzerland and Singapore. We also have a presence in the Cayman Islands, Frankfurt, Milan and Hong Kong. As the global mobility of high net worth individuals increases, this model allows us to ensure we can meet the service expectations of our clients.

We are also one of the UK market leaders in investment management services for charities, with a dedicated specialist team in this area. We provide a personal service tailored to meet the present and future needs of charities and charitable trusts.

### Client service proposition

Dedicated relationship management is core to our proposition, tailoring our service to clients' individual needs. Each client has a dedicated portfolio manager, with an average of nearly 20 years' experience, which allows clients to build close relationships and to ensure that their investment aims are understood fully.

Our investment proposition has a consistent focus on delivering strong risk-adjusted returns. It draws on Schroders' investment expertise and third-party managers, working closely with clients and their professional advisers.

We take an active approach to portfolio management and, as part of our wealth planning capability, seek to take into account the changing personal circumstances of our clients when making decisions over the longer term.

Our banking and treasury services enable us to provide a range of finance and lending facilities to clients which can assist in the overall management of their financial affairs.

### Acquisition of Cazenove Capital

As a result of the acquisition of Cazenove Capital, we expanded our scale and capabilities for private clients and charities in the UK, with assets under management at 31 December at £23.2 billion. There is a complementary fit between the two firms, with a strong shared service culture, long-term investment approach and established heritage. We will develop our UK business, using the Cazenove Capital Management name.

### Wealth Management revenue and costs

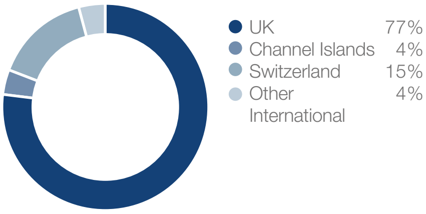
Wealth Management net revenue comprises fees charged as a percentage of assets under management, transaction-related fees, net interest income and fees for specialist banking services. Wealth Management costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, legal, compliance, risk and audit.

Wealth Management achieved net revenue of £150.0 million (2012: £94.4 million) and profit before tax and exceptional items of £34.3 million (2012: £11.8 million) in 2013. The increase reflects an improved performance in the Schroders business and the impact of the acquisition of Cazenove Capital in July 2013.

### Services offered

- Discretionary and advisory asset management on behalf of high net worth individuals and family offices
- Financial planning
- Cash management and deposit taking
- Custody and execution services
- Specialised lending

Wealth Management assets under management




**£30.1bn**

(2012: £16.3bn)

For more information on the financial performance of Wealth Management, see page 96.

We are one of the UK market leaders in investment management services for charities.

# Group

The Group segment includes the offices of the Chairman, Chief Executive and Chief Financial Officer, as well as employees involved in the management of the Group's investment capital and liquidity.

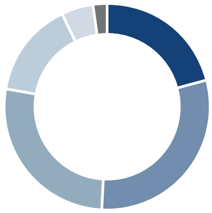
Group capital comprises operating capital required for regulatory and operational purposes and investment capital, surplus to operating requirements.

Investment capital is managed with the objective of a cash plus 1.5 per cent. return with low volatility. Individual investments are diversified across approved asset classes that are judged to be compatible with the investment objectives, subject to limits as to quantum and value at risk approved by the Board.

**Group segment revenue and costs**
Revenue comprises income and net gains on investment capital. Costs relate to the offices of the Chairman, Chief Executive and Chief Financial Officer; Group investment capital and treasury; the Board; and other costs, including those associated with governance, corporate management and external and captive insurance arrangements.

The Group segment net revenue was £10.4 million (2012: £25.7 million) and costs were £19.1 million (2012: £37.2 million). After taking account of interest income of £12.1 million (2012: £11.7 million) and the profit from a private equity associate of £1.5 million (2012: loss of £0.5 million), the segment generated a profit before tax and exceptional items of £4.9 million (2012: loss of £0.3 million).

Investment capital




**£677m**
(2012: £926m)

For more information on the financial performance of the Group segment, see page 97.

Strategic report
Strategy

UK and European equities

In 2013, we combined our UK and European Equities businesses, creating the new role of Head of UK and European Equities. Combining our portfolio management and research resources across the UK and continental Europe gives us better insights into developing trends and opportunities which affect the UK and Europe more widely.

# Partnerships

## Building close relationships with our clients

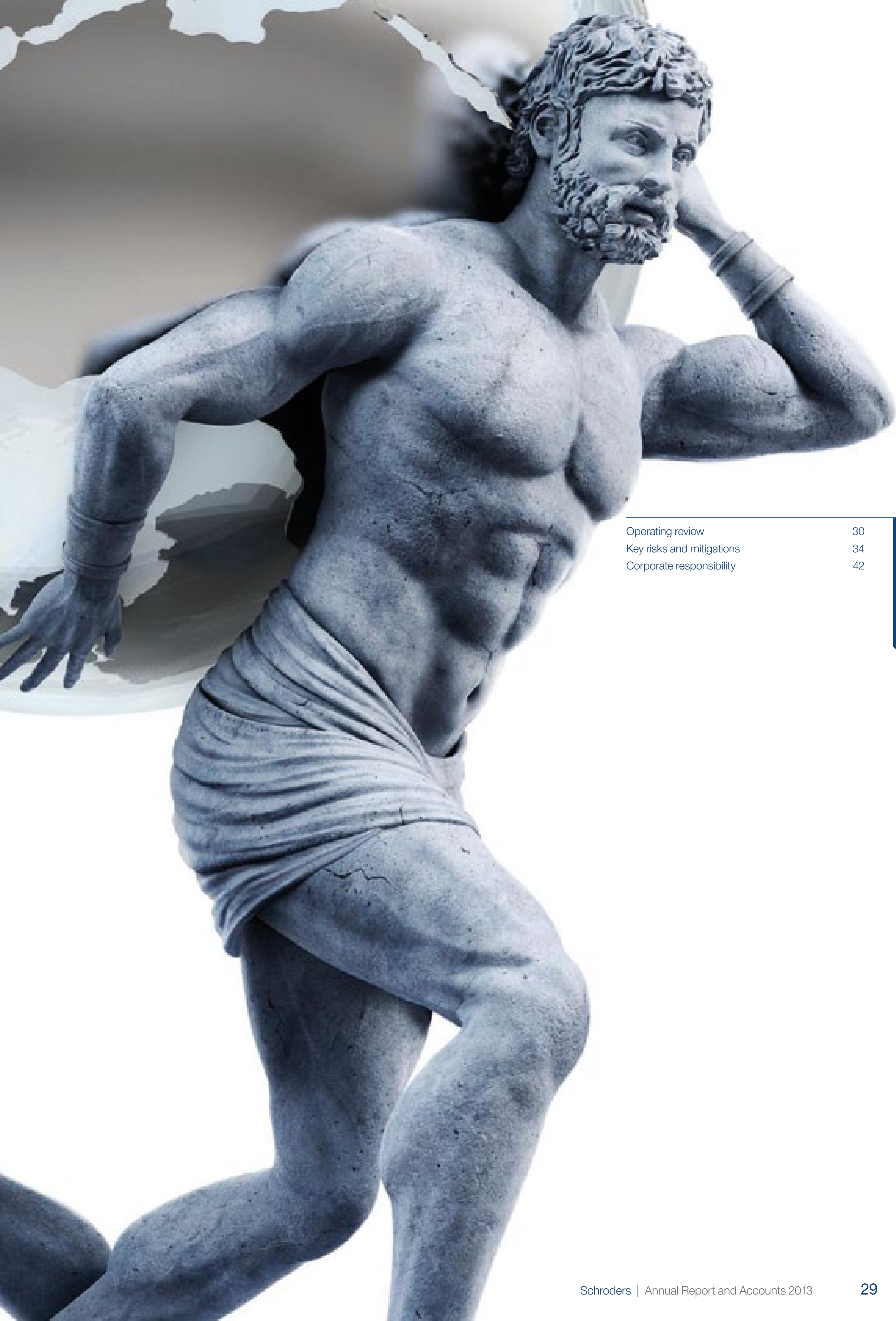
A detailed understanding of our clients' investment needs leads to enduring relationships. We manage assets on behalf of institutional and retail investors, financial institutions and high net worth individuals across the world, and offer a comprehensive range of products and services to meet our clients' investment objectives.

To access rapidly growing markets and expand our distribution presence, we partner with Axis Bank, the third-largest private sector bank in India; Bank of Communications, one of the top five commercial banks in China; and Nippon Life, the second largest Japanese life insurance company.

AXIS BANK

交银施罗德
BOCOM Schroders
稳 健 源 自 前 瞻
WWW.FUND001.COM 400-700-5000

NISSAY



# Operating review

## Schroders performed well in 2013, with strong investment performance and £7.9 billion of net new business.

**Strategic review – our progress in 2013**
The Board and Group Management Committee conduct regular reviews of Schroders' strategic direction. In 2012, this involved discussions with a number of stakeholders including clients, employees and shareholders.

We identified a number of key growth initiatives that will be areas of focus over the next few years, including our intention to grow alternative and outcome-orientated strategies as part of our core Equities, Multi-asset and Fixed Income activities. We also plan to expand our presence in the US, which represents approximately 10 per cent. of our business currently. We will continue to grow our presence in developing markets where we are already well positioned in terms of both investment and distribution capabilities.

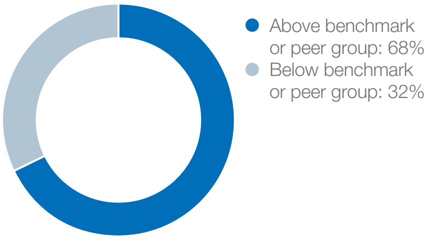
Our progress against some of the key findings from this review is summarised in the following table:

**Strategic review**

| Key initiatives | Our progress in 2013 |
|---|---|
| – Pursue long-term growth opportunities in our core business | We generated net inflows of £9.4 billion in Asset Management. |
| – Build alternative strategies as part of our core business | We have seen growth in Multi-asset, income and absolute return strategies. We added an insurance-linked securities capability with the acquisition of 30 per cent. of Secquaero and a convertible bond capability. |
| – Capitalise on Schroders' strength in developing markets | We had net inflows of £4.6 billion in Asia Pacific, of which 66 per cent. arose in developing markets and we are growing our businesses in the Middle East and Latin America. |
| – Expand our presence in the United States | Our acquisition of STW Fixed Income has expanded our presence in the region. We have also seen organic net inflows of £0.3 billion during the year. |
| – Reshape and grow Private Banking | The acquisition of Cazenove Capital has transformed our Wealth Management business and increased assets under management by 85 per cent. to £30.1 billion. |
| – Build scale and create efficiencies | Our assets under management in 2013 increased 24 per cent. to a record £262.9 billion. |
| – Consider acquisitions and the firm's capital structure | We completed three acquisitions – STW, Cazenove Capital and 30 per cent. of Secquaero; and increased our dividend by 35 per cent. reflecting the Board's confidence in our long-term growth prospects. Despite this we maintained a strong financial position with £677 million of investment capital. |

In 2013, we appointed a new Global Head of Product and Defined Contribution.

### Three-year investment performance*




# £7.9bn

**net inflows in 2013** (2012: £9.4 billion)

### Investment performance*

Over the three years to 31 December 2013, 68 per cent. of assets under management outperformed their benchmark or peer group.

We focus on investment performance over a three-year rolling period, which is consistent with our aim to create value for clients over the long term. Performance has also remained consistent over one year, with 70 per cent. of assets under management outperforming.

### Product management and development

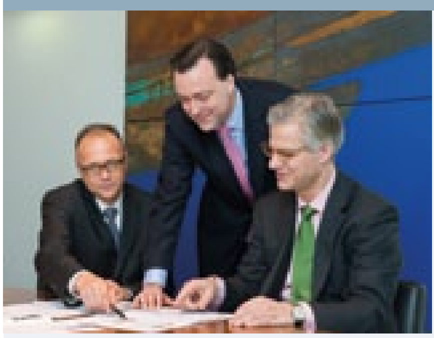
We monitor the capacity of our investment products closely to avoid assets in a specific strategy reaching levels which could inhibit investment performance. This sometimes causes us to soft close or hard close a product to new flows, which in turn can lead to net outflows as clients are no longer able to invest additional funds in closed strategies.

During the first quarter of 2013, we closed our Asian Asset Income Fund following significant net inflows from Asian clients. We were able to reopen this fund in November. In January 2014, we closed the Cazenove Smaller Companies Fund, and continue to monitor closely capacity on the Cazenove UK Opportunities Fund after strong demand throughout 2013.

We take a long-term approach to product development and a new product will often require a three to five-year performance record before it can attract inflows. At 31 December 2013, £182 million of seed capital (2012: £156 million) was invested in seeding new investment strategies.

During the year, we launched a number of new funds to meet changing client demands, including:
– Flight Path Swift, a new LDI solution to allow smaller defined benefit pension schemes to access de-risking strategies in an affordable and easy to manage way;
– Strategic Beta Fund, an innovative multi-asset fund that aims to deliver stable performance in a variety of market environments. It invests in a broad range of assets using a risk weighting approach to create a diversified portfolio;
– Global Recovery Fund, a global version of our top performing UK Recovery fund, which invests in global companies selling on depressed valuations but which we expect to have excellent growth prospects over a three to five-year time horizon;
– Euro Credit Conviction, which aims to achieve a higher yield than core euro corporate bond funds by focusing on the best ideas generated by our European and UK credit teams;
– Global Unconstrained Bond Fund, which takes an unconstrained approach and aims to achieve an attractive risk adjusted return above its benchmark over an interest rate cycle;
– Wealth Preservation Fund, which offers investors an easy-to-understand, flexible investment vehicle that aims to preserve and grow savings in real terms in various economic conditions;

* See Glossary for definition



### Convertible bonds capability

In December 2013, we brought the management of our convertible bond funds in-house, after a successful five-year relationship with Fisch Asset Management. Developing our own convertible bond capability was a natural extension of our existing investment strategies across equities and fixed income and members of the Fisch Asset Management team transferred to Schroders' Zurich office towards the end of the year.

- Core Insurance Linked Securities Fund, which was launched following the acquisition of a 30 per cent. shareholding in Secquaero, has the flexibility to invest in both catastrophe bonds and other linked instruments;
- Catastrophe Bond Fund on our Global Alternative Investor Access UCITS platform, a regulated, transparently-operated platform for UCITS funds designed to give investors easier access to hedge funds; and
- Indian Opportunities Fund, advised by Axis Asset Management Company, in which we acquired a 25 per cent. shareholding in 2012. It takes an unconstrained, all cap approach and is not managed relative to a benchmark.

## Investing for long-term growth

We continued to invest for future growth throughout 2013.

### People and Infrastructure

At the end of December 2013, we employed 3,528 people.

We added talent in Investment, Distribution, Wealth Management and Infrastructure in 2013. Our headcount increased by 517 as a result of this organic growth as well as acquisitions completed during the year.

### Acquisitions

In 2013, we completed the acquisition of STW, a value-orientated, US investment-grade fixed income manager. Five STW employees transferred to our New York office and the integration of the business is expected to complete in the first half of 2014.

On 2 July, we completed the acquisition of Cazenove Capital, with £20.1 billion of assets under management. This had increased to £23.8 billion as at 31 December 2013. The acquisition has been received positively by clients, with net inflows post-acquisition of £2.0 billion; £1.8 billion in Asset Management and £0.2 billion in Wealth Management.

Cazenove Capital's highly-rated fund managers in UK and European equities, fixed income, multi-manager and absolute return strategies joined Schroders' existing investment teams on completion of the transaction. The funds will be renamed as Schroders funds during the first quarter of 2014.

In UK Wealth Management, we established a combined management team in July and the businesses co-located in November. Our charity and private clients have continued to be looked after by their existing teams with a strong shared service culture in both businesses.

The integration is progressing well and we expect to achieve annual pre-tax cost synergies of between £12 million and £15 million. The programme is expected to complete in August 2014.

## New business flows

### Total assets under management

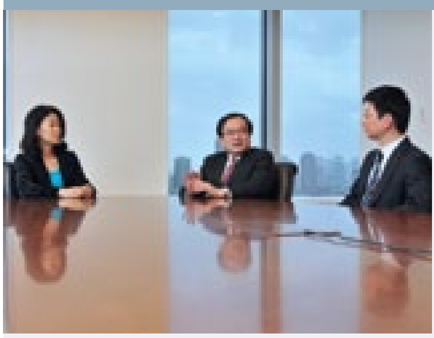
At 31 December 2013, assets under management were at a record high of £262.9 billion, an increase of 24 per cent. compared to the start of the year (2012: £212.0 billion).

Acquisitions accounted for £27.2 billion of the increase, while our strong investment performance, broad product range and proven distribution capability led to net inflows of £7.9 billion (2012: £9.4 billion). We continued to benefit from our global presence with strong sales internationally, across a broad range of multi-asset, equities and fixed income products.

Multi-asset accounted for net inflows of £6.9 billion, reflecting a strong performance in Intermediary sales, particularly in Asia Pacific, and high demand for multi-asset income strategies in the first half of the year. We also saw good demand from Institutional clients throughout the year.

Equities also performed well with £2.8 billion of net inflows in 2013, concentrated in Asian Equities, Quantitative Equity Products, Japanese Equities and UK small and mid-cap Equities.

We generated net inflows of £0.1 billion in Fixed Income, with net inflows in Asian, Australian, Convertible and Insurance-linked bonds, offset by outflows from intermediary clients, particularly in Global and European bonds, and institutional outflows in US bonds, although Institutional was positive overall.



### Strong demand for Japanese equities

During 2013, we saw increasing investor demand for our Japanese equity range as the economy continued its strong recovery, accelerated by Prime Minister Shinzō Abe's financial reforms. Our Japanese equity range saw net inflows of £1.0 billion during the year.

We have a leading capability in UK equities with our existing team joined by portfolio managers from Cazenove Capital and new hires.

**£262.9 billion**

**Assets under management ended 2013 at a record level, up 24 per cent. on 2012.**

## Assets under management – 2013 flows

| | Total £bn | Institutional £bn | Intermediary £bn | Wealth Management £bn |
|---|---|---|---|---|
| **1 January 2013** | **212.0** | **123.7** | **72.0** | **16.3** |
| **Acquisitions** | **27.2** | **7.1** | **6.9** | **13.2** |
| Gross inflows | 75.6 | 28.2 | 42.0 | 5.4 |
| Gross outflows | (67.7) | (23.6) | (37.2) | (6.9) |
| **Net flows** | **7.9** | **4.6** | **4.8** | **(1.5)** |
| **Investment returns** | **15.8** | **8.9** | **4.8** | **2.1** |
| **31 December 2013** | **262.9** | **144.3** | **88.5** | **30.1** |

### Investment returns

Investment returns for clients were overall positive in 2013, increasing assets under management by £15.8 billion.

### Asset Management

Total net new business in Asset Management was £9.4 billion (2012: £9.7 billion) consisting of £4.6 billion net inflows from institutional clients and £4.8 billion net inflows from intermediary clients.

We saw good levels of Institutional investor demand throughout 2013, with gross sales of £28.2 billion (2012: £21.8 billion) and net inflows across all asset classes. Assets under management in Institutional ended the year at £144.3 billion (2012: £123.7 billion).

In Intermediary, gross inflows increased 32 per cent. to £42.0 billion (2012: £31.8 billion) in 2013. We saw strong demand from Asian retail clients in the first half of the year, which offset outflows from UK large-cap equities. In the second half, we benefited from a high level of inflows into the Cazenove Capital fund range in the UK and an increase in investor risk appetite in Europe, particularly for developed market equities. For the year as a whole, net inflows were £4.8 billion (2012: £3.3 billion). Assets under management in Intermediary ended the year at £88.5 billion (2012: £72.0 billion).

### Wealth Management

Assets under management increased from £16.3 billion to £30.1 billion at the end of 2013, as a result of the acquisition of Cazenove Capital, positive investment returns for clients and net outflows of £1.5 billion (2012: £0.3 billion).



### Strong demand for Cazenove Capital funds

We have seen net inflows of £1.8 billion into Cazenove Capital funds since the acquisition completed on 2 July 2013. In January 2014, we hard closed the UK Smaller Companies Fund and soft closed the UK Opportunities strategies for capacity reasons. This ensures that the fund size does not inhibit flexibility. These funds will be renamed Schroders funds during the first quarter of 2014.

# Key risks and mitigations

## Integrity and appropriate conduct are integral to Schroders' culture and approach to risk management.

Our Legal team works to analyse the obligations we assume.

This section explains how we control and manage the risks in our business. It outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current economic and political environment.

### Managing risk

The Board is accountable for risk and the oversight of the risk management process. It considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee with respect to standards of integrity, financial reporting, risk management and internal control.

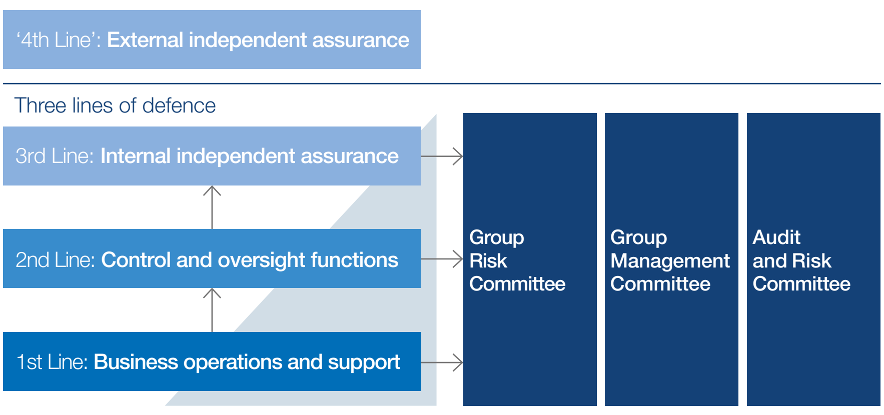
It is the responsibility of all employees to uphold the control culture of Schroders and we embed risk management within the business. Members of the Group Management Committee (GMC) have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture and core values of the firm.

The Chief Executive and the GMC review the key risks facing the Group regularly as the principal executive committee with responsibility for the monitoring and reporting of risk and controls. These include reputational, market, investment performance and liquidity risks, credit risks, operational risks including legal, regulatory and compliance, people and conduct risk, and emerging risks.

The executive oversight of risk is delegated by the Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls.

The Chief Financial Officer is supported by the Group Head of Risk and chairs the Group Risk Committee, which meets 10 times a year, and more frequently if required, and is attended by the heads of the control functions, the Chief Operating Officer, the Global Head of Equities and senior managers from Distribution. The Group Risk Committee supports the Chief Financial Officer and the GMC in discharging these risk responsibilities. It reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures. There is also a dedicated Wealth Management Risk Committee, which reports into the Group Risk Committee.

**Lines of defence**
Overview



Our Compliance teams are focused increasingly on conduct risk, embedding a culture of treating clients fairly throughout the Group.

## Lines of defence

The first line of defence against unexpected outcomes lies with line managers, whether they are in Investment, Distribution, Wealth Management or Infrastructure. The senior management team takes the lead role with respect to implementing and maintaining appropriate controls across the business to ensure the quality standards expected by clients and regulators. Line management is supplemented by oversight functions, such as Group Risk, Finance, Compliance and Legal, which provide the second line of defence. The Compliance monitoring programme reviews the effective operation of our processes to meet regulatory requirements.

Group Internal Audit provides retrospective, independent assurance over the operation of controls and is the third line of defence against unexpected outcomes. The internal audit programme includes reviews of the risk management process and advice and recommendations to improve the control environment. External assurance can provide a fourth line of defence.

Schroders also has a comprehensive insurance programme, providing substantial financial assurance.

Wealth Management-specific risks have been a focus during 2013.

## 2013 developments

During the year, we reviewed and re-emphasised the role of the GMC as the principal executive committee with responsibility for risk as well as the responsibility of line management in embedding appropriate risk management throughout the firm. We continued to devote resources to the management of risks associated with the external market environment, including instability in the Eurozone although this risk decreased as the year progressed.

Investment risk was another area of focus, reflecting the growth in funds and assets under management. We introduced a new operational risk system, 'Archer', to support a revised, firm-wide 'Risk and Control Assessment' approach.

The focus on Wealth Management-specific risks continued in 2013, particularly investment risk and the risks associated with the integration of the acquisition of Cazenove Capital. The risks associated with the integration of STW and our relationship with Secquaero were also reviewed regularly. The implications of business integration on our IT and Operations functions was considered, with regular assessments of project prioritisation and resource allocation.

Updates were made to a number of Group policies, including conflicts of interest and anti-bribery and corruption to reflect new regulatory guidance in these areas; institutional client take-on procedures; investment model governance; and the acceptance of contingent liabilities and other non-standard commitments. We reviewed our approach to conduct risk recognising its importance to our clients and regulators.

## Key risks

The following tables summarise key business risks currently considered most relevant to our business. See notes 20 and 21 to the accounts for further information on financial instrument risk management and derivative contracts.

# Key risks and mitigations continued

## Reputational risk

In the asset management industry, reputational risk can arise from any of the key risks outlined below. Reputation risk relates to the Schroders brand, as well as ethics, trust, relationships with stakeholders, conduct and the overall culture and values of our firm.

| Key risk | Description | How we manage risk |
|---|---|---|
| **Reputational risk** | This can arise from financial or operational events or failing to meet stakeholders' expectations. | Integrity, appropriate conduct and a principled approach to regulatory compliance, including treating customers fairly, are integral to Schroders' culture. We engage in proactive communications with all stakeholders and monitor media coverage to understand how our reputation is perceived. |

## Market, investment performance and liquidity risks

We face risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent. We have principal exposure in our Wealth Management business, where we hold bank paper and government securities; and through the Group's investment capital, where we hold cash and certificates of deposits, government and corporate bonds, equities, funds of hedge funds, property, private equity and catastrophe bonds. We also have principal exposure in the Life Company in Asset Management which holds investments in funds but this exposure is transferred to third-party investors in the Life Company's product and therefore is comparable to the agency exposure in both segments in respect of the assets we manage on behalf of our clients.

| Key risk | Description | How we manage risk |
|---|---|---|
| **Market risk** | Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.<br><br>Operational capital, net fee income and expenses related to the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk. | Our geographically-diversified, broad product range enables us to provide clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies.<br><br>The Group Capital Committee, chaired by the Chief Financial Officer, regularly reviews all holdings within Group capital. All principal investments are managed within approved limits. The Group's seed capital investments are usually hedged in respect of market risk and currency risk.<br><br>Income and expenses are, where possible, matched in the currency of individual subsidiaries. We also use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements. In Wealth Management, a Wealth Management Risk Committee has been established to monitor and manage market risk at a local level. |
| **Investment performance risk** | The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives. This can adversely affect levels of net new business.<br><br>In Wealth Management, this also includes the risk of inappropriate advice and unsuitable investment portfolios in relation to clients' investment objectives. | The Schroder Investment Risk Framework provides review and challenge of investment risks across each of the asset classes managed by the Group. The Investment Risk team is independent of the Investment function. We adhere to clearly-defined investment processes which seek to meet investment targets within stated risk parameters. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and management on a regular basis, as well as by Pricing and Valuation Committees, Asset Class Risk Commitees and the GMC, allowing issues to be identified and mitigated.<br><br>Recognising that products will not outperform all of the time, we offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class. Investment performance is monitored as part of our investment risk management process.<br><br>A dedicated Investment Risk Committee for Wealth Management was established in 2013, following the acquisition of Cazenove Capital and the growth of our Wealth Management business. |

## Market, investment performance and liquidity risks continued

| Key risk | Description | How we manage risk |
|---|---|---|
| **Liquidity risk** | Liquidity risk, in relation to client portfolios, is the risk that funds cannot be generated to meet redemptions or other obligations as they arise. Liquidity issues can arise as a result of market conditions or through holdings of inherently illiquid investments. Liquidity risk also applies to the Group's own financial obligations. | To mitigate this risk within client portfolios, we seek to match, where possible, the liquidity of a portfolio's underlying investments with the anticipated redemption requirements. We actively monitor markets for indicators of a decline in liquidity. We also review products and portfolios to identify capacity constraints.<br>Each of our regulated subsidiaries, and the Group as a whole, meet regulatory capital requirements. In addition, we maintain sufficient liquidity for our anticipated needs, taking account of the risks we face.<br>In Wealth Management in London, we operate an Individual Liquidity Analysis Adequacy (ILAA) process. |

## Credit risk

We face risks from the default of counterparties to our principal financial transactions. Our clients also face counterparty risk in relation to the financial transactions in their portfolios and funds. Wealth Management additionally faces principal credit risk on its lending activities.

| Key risk | Description | How we manage risk |
|---|---|---|
| **Credit risk** | We face credit risk as a result of counterparty exposure. | In order to manage this risk we monitor counterparty creditworthiness with limits expressed in terms of value and term to maturity. The Group sets overall limits in respect of both principal and agency counterparty risk.<br>Where possible, we seek to diversify our exposure across different counterparties.<br>Counterparties are reviewed on a regular basis and limits are amended following changes to their financial condition. We monitor market data and rating agency outputs in assessing counterparties. |
| | We face credit risk through Wealth Management lending activities. | In Wealth Management, we mitigate credit risk, where possible, through collateralisation in the form of cash, portfolio investments or property. Credit risk is monitored and managed against the performance of the collateral. |

## Operational risk

Operational risk arises in our investment management activities, distribution activities, product development and the operation of our IT and operations infrastructure. Line management is responsible for operational risk controls. We also face integration risk when consolidating acquired businesses into the Group.

| Key risk | Description | How we manage risk |
|---|---|---|
| **Process risk** | Operational risk could arise from the failure of significant business processes undertaken by Schroders, including for example mandate compliance, client suitability checks and asset pricing. | Business processes are reviewed to identify suitable operational controls to mitigate potential risks. |
| **Third-party service provider risk** | We have a number of outsourced supplier relationships as part of our business model, particularly in respect of fund administration and transfer agency services. | Before entering into outsourcing arrangements, we undertake due diligence on third-party suppliers. We then maintain a programme of regular assessment against agreed service levels. |

# Key risks and mitigations continued

## Operational risk continued

| Key risk | Description | How we manage risk |
|---|---|---|
| **Integration risk** | Integration risk arises on the acquisition of a business that may have a significant impact on the risk exposure and risk management strategies of the combined business. | Risk management considerations are evaluated prior to any acquisition and an integration plan, including risk management, as well as steps to address transaction-specific risks, is developed and implemented post-acquisition. The GMC, supported by the Group Risk Committee, monitors integration progress against planned targets. |
| | It also includes transaction-specific risks, such as the impact of competing demands on IT and Operations from system integration, loss of clients or key employees. | Group Risk considers the risk resources available to support newly acquired businesses and appropriate risk resource with experience of the relevant business area is identified and developed. |
| **Distribution risk** | Distribution risk arises from concentration across different distribution channels and products. We have three broad client groups: institutional clients, often advised by consultants; retail clients, intermediated through banks, brokers and independent advisers; and private clients and charities. | The broad range of distribution channels mitigates against a key dependency on any sales channel.<br>No single client accounts for more than two per cent. of total revenue. |
| **Product risk** | Product risk arises from product complexity and the risk that these products either do not meet their performance objectives or are unsuitable for certain clients. | We have a dedicated Product Development team and a product approval and review procedure. We consider carefully the suitability of products for clients and, where possible, monitor the way products are sold. |
| | Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market. | We monitor potential capacity constraints and may mitigate them by hard or soft closing products to new investment in certain circumstances. |
| **Technology and security risk** | The risks that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are vulnerable to third-party penetration; and that data is held insecurely. | The UK Government and Bank of England have highlighted cybercrime as an issue across the financial and broader commercial sectors and we are engaging in a Bank of England exercise to address our response to potential threats. A Head of Information Security has joined the Group and we have updated the Group's insurance cover for cybercrime to include more explicit coverage in the terms and conditions. |
| | We rely on technology and qualified professionals to maintain our infrastructure, and we invest in information technology projects with long lead times. | We regularly review the progress of major information technology projects and new systems are subject to rigorous testing before approval. Our technology is partly outsourced and our platform uses well-established, tested technology from outsource partners which we assess to be financially stable and able to provide the required level of service.<br>Outsource partners are an important part of our business model and we work with them to maintain the quality and continuity of service. Due diligence is undertaken before entering into new arrangements and performance is reviewed on an ongoing basis. Continuity and business resumption planning is in place across the business globally. |

## **Operational risk** continued

| Key risk | Description | How we manage risk |
|---|---|---|
| **People risk** | Talented people may be targeted by competitors seeking to build their businesses. | To mitigate people risks, we have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees, and we seek to build strength in depth and to put in place sustainable succession and development plans. We also operate from many international centres, which reduces reliance on single pools of talent and individual country stability. Clear objectives are set and success is measured in the annual review process, allowing us to identify motivational development initiatives. |
| **Conduct risk** | The risks of client detriment, particularly with respect to retail fund distribution and Wealth Management, and market integrity, money laundering and bribery and corruption. | This is managed through a conduct risk framework focusing on enhancements to risk identification, mitigation, management information and reporting in conjunction with line management and Human Resources.<br><br>Our client take-on programmes are designed to confirm clients' status, risk appetite and requirements. |
| | We face the possible risk of inappropriate conduct or actions by individuals or a group of employees. | We expect our employees to behave with integrity, which is one of our core values. We promote our cultural values throughout the firm and demand high ethical standards and train our employees accordingly. |
| **Legal, regulatory and compliance risk** | The risk that Schroders or its counterparties or clients fail to meet their legal obligations and the risk of legal proceedings and loss. The risk that client expectations and obligations with respect to our own and third-party responsibilities under their investment management and other agreements will not be met, with a revenue or contingent liability impact.<br><br>The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements in those jurisdictions in which the Group operates.<br><br>The risk that new regulation or changes to the interpretation or implementation of existing regulation affects the Group's operations and cost base. | We rely on our employees, with support from our Compliance and Legal functions, to consider carefully the obligations we assume and our compliance with them.<br><br>Confirmations are obtained from representatives around the Group that any actual or potential dispute or claim has been brought promptly to the attention of the General Counsel.<br><br>We maintain compliance procedures across the Group, and our Compliance and Legal functions support business management in meeting its obligations. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.<br><br>Regulatory and legal change is monitored by the Compliance and Legal functions. Key regulatory change risks are identified on page 41. We maintain good working relationships with our regulators and participate in industry representative organisations globally to ensure we are informed of potential changes in regulations.<br><br>With the introduction of central clearing for derivatives we are revising our credit and operational due diligence processes. |
| **Geographical diversity risk** | Our business is broadly diversified by region which, whilst mitigating aggregate risk, introduces risks as a result of complexity, local laws, regulations, business customs and traditions. | We employ local people with local expertise and also second employees internationally within the Group.<br><br>The Group Risk Committee receives reports from line management regarding matters giving cause for concern and recommendations for appropriate remedial action.<br><br>We keep our employees up-to-date on relevant international regulation.<br><br>An independent team, reporting to the Group Head of Risk, is responsible for assessing the impact of material risk issues and events across the offices of the Group and implementing appropriate and timely risk mitigation.<br><br>Our overseas operations are regularly reviewed by Internal Audit. |

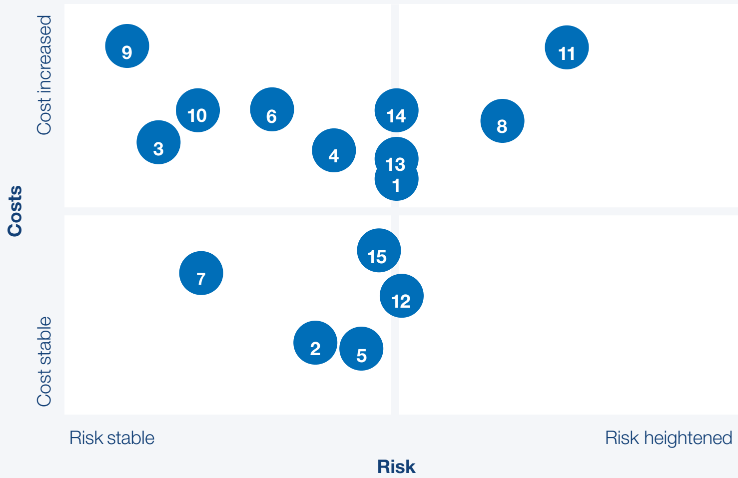
# Key risks and mitigations continued

## Key continuing risks

The key continuing risks outlined on pages 36 to 39 have been assessed in the light of the current economic and geopolitical environment as summarised in the diagram below.

The horizontal axis shows whether risk is stable or heightened reflecting current market conditions, where relevant. The vertical axis shows whether the potential cost of the key risk is stable or has increased. The Group undertakes additional work to address those risks that it considers to be potentially heightened and/or more costly.

1. Reputational risk
2. Market risk
3. Investment performance risk
4. Liquidity risk
5. Credit risk
6. Process risk
7. Third-party service provider risk
8. Integration risk
9. Distribution risk
10. Product risk
11. Technology and security risk
12. People risk
13. Conduct risk
14. Legal, regulatory and compliance risk
15. Geographical diversity risk




## Key emerging risks

Emerging risks are those with uncertain impact, probability and timeframe that could cause risk to the Group. These are the hardest to define and may change in nature. We analyse each risk and, if needed, develop and apply mitigation and management plans. The external emerging risks that are currently our focus of attention are set out below. The diagram indicates our assessment of the likelihood and potential timing of these risks. The estimated likelihood may change as circumstances change and mitigation plans are developed. Regulatory risks are reported on the following page.

1. Eurozone crisis
2. Major bank failure
3. Market liquidity crisis
4. Margin pressure
5. US debt crisis
6. Clearing house failure
7. Cyber-crime
8. Fund liquidity
9. Terrorism
10. UK exit from the European Union

● Market ● Other ● Client/competitor
● Regulatory/legislative ● Counterparty/third party

## Key regulatory change risks

The extent of regulatory change facing our industry has increased significantly in recent years. The following diagram combines known and emerging key regulatory change risks, to identify both the likely timing and estimated impact of regulatory change on our business. New risks in 2013 are highlighted in grey. More information on key changes can be found in the Market review and Operating review sections.

1. Consumer Rights Bill
2. Banking Reform Act
3. AIFMD
4. Capital Requirements Directive IV
5. MiFID II
6. UCITS V
7. Anti-Money Laundering Directive IV
8. Client asset reform
9. Market Abuse Directive II
10. Remuneration regulation
11. EU common regulatory reporting framework
12. Retail Distribution Review
13. EU securities law reform
14. Shadow banking/money market funds reform
15. Non-bank Recovery and Resolution requirements
16. Derivative regulation – US, Europe, Asia
17. Data protection regulation
18. Solvency II
19. Packaged Retail Investment Products Directive
20. Dealing commission reform

● In 2012 Annual Report
● New addition




In 2013, we strengthened our investment risk team within Equities with a dedicated team focusing on consistency of investment performance.

# Corporate responsibility

We strive to be socially responsible, focusing on our core values of integrity, passion, innovation, teamwork and excellence.

Our HR team works across the business to help identify, retain and develop a deep pool of talent.

**Oversight**

To ensure that Corporate responsibility is managed and dealt with at the appropriate level, there is a Corporate Responsibility Committee which is chaired by Philip Mallinckrodt, an executive Director.

Corporate responsibility (CR) is an integral part of Schroders. Our approach to CR is built on four pillars – marketplace, people, environment and community.

With £262.9 billion of assets under management, we recognise that it is in the marketplace that we can have the most impact and deliver the greatest value to society.

As one of the largest fund managers in the UK, we take our ownership responsibilities seriously. We monitor the activities of the companies in which we invest and use our influence as a shareholder to encourage these businesses to act responsibly.

### Our economic contribution

Schroders is committed to conducting its tax affairs in an open and transparent way. In 2013, we paid corporate income taxes of £93.9 million (2012: £81.6 million). Further information on tax can be found in our financial statements on page 104.

We are committed to complying with our tax obligations worldwide and to maintaining a good reputation with tax authorities in the jurisdictions in which we operate. In the UK, Schroders was one of the first businesses to enter into a framework agreement with HMRC. Under this framework, we keep HMRC informed of business activities, results and key developments as they arise and proactively disclose issues, risks and uncertain tax positions.

We have also signed up to the Code of Practice on Taxation for Banks and comply with its requirements. During 2013, we engaged in dialogue with a number of external action groups to share details of our approach in this area.

## Marketplace

In 2013, we further strengthened our approach to this area of CR, by bringing together the Responsible Investment and Corporate Governance teams under the oversight of a Global Head of Stewardship and Environmental, Social and Governance (ESG) Investment.

We believe that engaging with companies strategically is good for returns as well as CR. Constructive engagement with corporates has been a long-standing theme in the US institutional investment market and is becoming increasingly important in the UK.

Our approach to CR is built around four pillars:

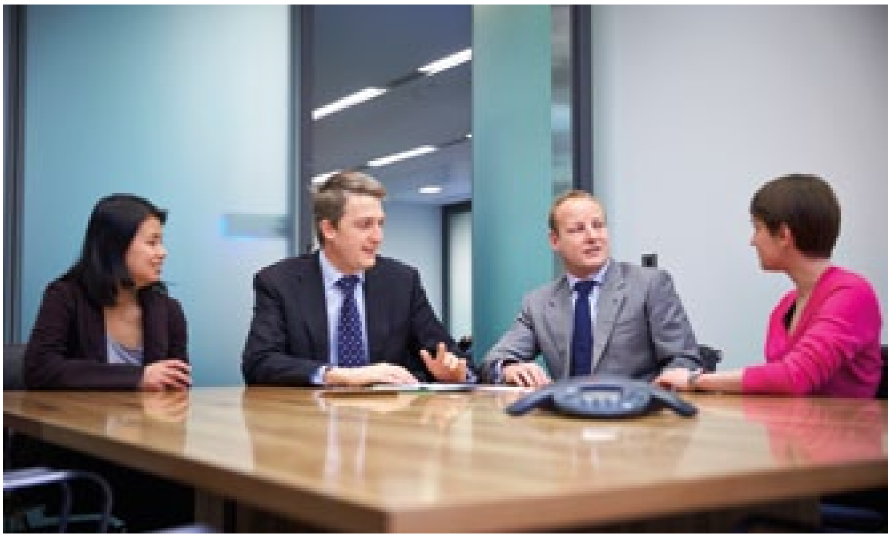
**Marketplace**
- Being transparent in our operations and reporting
- Encouraging and supporting these principles in the companies in which we invest

**People**
- Developing and retaining a deep pool of talent

**Environment**
- Minimising our environmental footprint

**Community**
- Supporting the communities in which we operate

For a more detailed look at Schroders' activities across all areas of CR, please visit **www.schroders.com/cr**

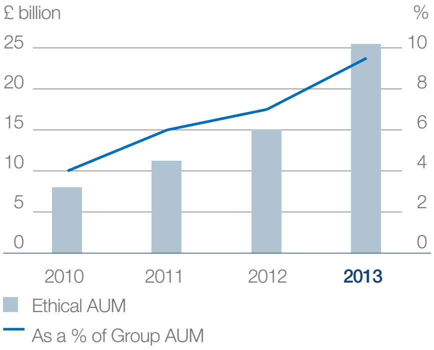


This year we brought together the Responsible Investment and Corporate Governance teams and appointed a Global Head of Stewardship and ESG Investment.

**Company resolutions voted on**

| | % |
|---|---|
| 2011 | 85 |
| 2012 | 90 |
| **2013** | **96** |

**Group Ethical AUM**




Schroders is a member of the Collective Engagement Working Group, established in 2013 and supported by the Association of British Insurers, Investment Management Association, and National Association of Pension Funds, to identify how investors can work together in their engagement with listed companies to improve sustainable, long-term company performance and overall returns.

We support the creation of an Investor Forum in 2014, to operate 'Engagement Action Groups' to address and resolve issues of concern when they arise at major UK listed companies.

Corporate engagement is an integral part of our investment process. It allows us to understand the sustainable value of the companies in which we invest on behalf of our clients. During 2013, our fund managers and analysts attended over 14,500 meetings with companies to discuss issues such as strategy, management, governance and financial performance.

We are also committed to the UK Stewardship Code, published by the Financial Reporting Council in 2012. Information about how we comply with the code can be found on our website www.schroders.com/ri.

Our global Investment and Corporate Governance Policy outlines our approach to engaging with companies in which we hold equity investments and our approach to conflicts of interest in that regard. We will engage and normally vote on any issue affecting the long-term sustainable value of a company in which we invest. Our focus is primarily on issues material to the value of a company's shares.

During the year, we voted on the resolutions of 6,500 company meetings. We aim to vote at all company meetings where we have an equity holding and will vote on all resolutions except where there are onerous conditions attached to voting.

Voting reports are provided quarterly to institutional clients and we also publish details of our voting record on our website. This is done after a suitable period so the publication of our voting record does not unduly influence the outcome of discussions with the company. We believe that effective engagement with management should normally remain confidential since publicity can frequently entrench positions rather than resolve issues.

Ethical screening is also becoming an increasingly important area for our clients. We integrate our ESG analysis into our investment processes and assets under management with ethical screening have increased significantly in recent years to over nine per cent. of total AUM.



We are a member of the London Benchmarking Group (LBG).

We are included in the FTSE4Good Index Series.

We are a member of Heart of the City's alumni programme.

We participate in the Carbon Disclosure Project (CDP) climate change program.

## Managing diversity

We believe that appointments to roles should be based on merit and performance, and do not support quotas. We recognise that we must have a proactive and coordinated approach to attract, retain and develop a diverse workforce.

Schroders is already diverse in terms of the nationalities employed in our local offices across the world. This is a key strength that provides us with local market knowledge and a deep understanding of our clients' needs.

The gender diversity within the Group is shown below.

| 2013 | Female | Male |
|---|---|---|
| **Directors** | **1** | **10** |
| Senior managers | **138** | **426** |
| Subsidiary directors | **11** | **52** |
| **Total senior management** | **149** | **478** |
| **All employees** | **1,487**<br>**42%** | **2,041**<br>**58%** |

This year we continued to support the ELBA Graduate Local Employment Scheme (EaGLES) which aims to address high unemployment levels in the local community though six-month placements.

## People

Identifying, retaining and developing a deep pool of talent is one of our key strategic aims.

We recognise that good communication is important to ensure that employees are engaged and committed to Schroders and our strategic goals. We communicate regularly through a variety of channels, including management briefings, an in-house magazine and TV channel, and online news articles. We provide training for our people to help with retention. In 2013, the number of sessions held has increased significantly reflecting the additional recording of Continuous Professional Development for the RDR.

Annual employee meetings are also held to facilitate the exchange of views with senior management and discussion of the progress made by the Group. In the UK, an Employee Forum provides an additional channel for representing employee views to management.

Competitive remuneration is one of the keys to achieving this goal and our approach to remuneration is explained in the Remuneration report on page 66.

### High ethical standards

We promote high ethical standards and have an internal whistleblowing policy, whereby employees can raise concerns about behaviour or decisions that could indicate potential wrongdoing. Personal securities trading by employees is subject to clearly defined internal policies.

Employees are not permitted to solicit or accept any inducements that are likely to conflict with their duties. Training is provided in relation to anti-bribery, anti-money laundering, terrorist finance, data protection and treating customers fairly.

### Equal opportunities

We are committed to providing equal opportunities in employment and avoiding unlawful discrimination. We expect our workforce to reflect the diversity of the many communities in which we operate. Where possible, we monitor the ethnic, age and gender composition of our existing workforce and those applying for jobs.

Our policy is to give fair consideration to all applications for employment, having regard to particular aptitudes and abilities. The Group gives full and fair consideration to applications for employment from disabled persons. If employees become disabled, employment continues wherever possible, with retraining given if necessary. For the purposes of training, career development and progression, all employees are treated equally.

The Group is committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect. A policy is in place to assist in treating everyone fairly regardless of their age, gender, race, sexual orientation, disability, religion or beliefs. This policy is monitored periodically to judge its effectiveness.

### Human rights

We comply fully with appropriate human rights legislation in the countries in which we operate. Our business is undertaken predominantly in countries that have strong legislation in this area. We also encourage our business partners to adopt the same standards.

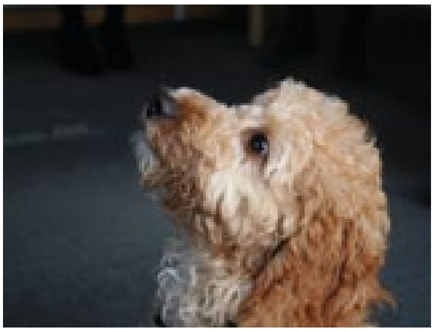
**Total $CO_2e$ emissions**

| | | | tonnes |
|---|---|---|---|
| 2012 | 9,353 | 7,273 | 16,626 |
| **2013** | 7,656 | 7,025 | **14,681** |

- Combustion of fuel and operation of facilities (gas, oil, all travel)
- Electricity, heat, steam and cooling purchased for own use (electricity only)

**$CO_2e$ emissions per employee**

| | tonnes |
|---|---|
| 2012 | 5.5 |
| **2013** | **4.2** |



In London, Schroders raised £10,000 to adopt and name a puppy for Hearing Dogs for Deaf People. Once trained, Tumble will provide support for a hard of hearing recipient.

## Environment

We are committed to minimising the environmental impacts of our operations and to delivering continuous improvement in our environmental performance.

In 2013, we used DEFRA's conversion factors to calculate our $CO_2e$ emissions for all office locations. In 2012, we used DEFRA's conversion factors for UK reporting, and either local conversion factors or guidelines from the UN for all other office locations. The total $CO_2e$ emissions data disclosed is consistent with our Carbon Disclosure Project submission which will be externally verified during 2014.

Our total carbon output has decreased by 11 per cent. which reflects our continued investment in energy efficiency measures.

More information on other environmental performance can be found on our website www.schroders.com/cr.

## Community

We support the communities in which we operate and encourage our employees to do the same.

In 2013, we donated £1.0 million (2012: £1.2 million) to charitable causes around the world, which included discretionary donations of £300,000 to charities involved with social welfare.

Our approach to charitable giving focuses on employee choice, and we support and encourage employees to raise money for the charities which matter most to them. These fundraising efforts are matched by Schroders, up to £2,400 per employee, per year.

We also operate payroll-giving schemes in a number of our offices. In the UK, 25 per cent. (2012: 25 per cent.) of employees donated in this way in 2013, and the firm made charitable matching donations of £311,000 (2012: £280,000) to support these. We again received the Payroll Giving Quality Mark Platinum Award from the Charities Aid Foundation in recognition of this.

To underpin our focus on employee community involvement, employees in many of our offices are able to take up to 15 hours of paid leave each year for volunteering services. If the volunteering they wish to do takes place outside working hours, our employees can claim 'volunteer time matching' to secure a donation for the charity they work with.

More information, as well as stories and case studies of our charitable activities, can be found on our website www.schroders.com/cr.

The Company's Strategic report is set out on pages 2 to 45 of the Annual Report, and is comprised of the Overview, Strategy and Business review together with our Financial review which is contained within the Financial report section (pages 86 to 97). The Strategic report outlines our performance against our strategic goals, operational highlights for 2013, our financial position and our future outlook.

The Strategic report was approved by the Board on 5 March 2014 and signed on its behalf by:

**Michael Dobson**
Chief Executive

### Read Alliance – New York

For the past five years, Schroders in New York has supported 'Read Alliance' through a corporate sponsorship initiative. Working in the Bronx, Read Alliance employs teenage tutors to assist with improving the educational skills of kindergarten and first grade students through one-to-one tutoring in foundation reading skills.

Through the 'Adopt-A-School' initiative in 2013, Schroders helps fund the Read Alliance programme at PS5X school in the Bronx. Employees can also support teenage tutors and students by volunteering as in-class tutors.

# Oversight

## Ensuring operational effectiveness

Operational effectiveness is about ensuring that we maintain a high quality of service while controlling operational risk. We aim to manage costs at between 65 and 70 per cent. of net revenues over a market cycle, dependent on market conditions.

**65%** cost:net revenue ratio in line with our target

Governance

# Board of Directors

The Board is accountable to shareholders for the creation and delivery of strong, sustainable, financial performance and long-term shareholder value. It is responsible for the oversight of the management of the business and for ensuring high standards of corporate governance.

All Directors will stand either for election or re-election at the 2014 Annual General Meeting.

**Andrew Beeson**
Chairman (69)

Appointed Chairman in May 2012, having been a non-executive Director since October 2004 and the Senior Independent Director from May 2010 to May 2012.

Experience: He was the Founder and Chief Executive of the Beeson Gregory Group and subsequently Chairman of Evolution Group plc, following its merger with Beeson Gregory. He was a Founder Director of IP Group plc, and also founded what is now known as the Quoted Companies Alliance.

External appointments: None.

Committee membership: Chairman of the Nominations Committee.

**Michael Dobson**
Chief Executive (61)

Chief Executive since November 2001, having joined the Board as a non-executive Director in April 2001.

Experience: He was previously Chief Executive of Morgan Grenfell Group and a Member of the Board of Managing Directors of Deutsche Bank AG.

External appointments: Member of the FCA Practitioner Panel.

**Luc Bertrand**
Senior Independent Director (63)

Appointed Senior Independent Director in May 2012, having been a non-executive Director since March 2006.

Experience: He started his career with Bankers Trust and held various corporate finance positions in New York, London and Amsterdam (1974-1980).

External appointments: He is Chief Executive of Ackermans & van Haaren N.V., an Independent Director of ING Belgium and a number of not-for-profit companies; Chairman of the Guberna Belgian Institute; Member of the Advisory Council of INSEAD Belgium; and Director of KU Leuven (University of Leuven).

Committee membership: Member of the Nominations and the Remuneration Committees.

**Richard Keers**
Chief Financial Officer (50)

Appointed a Director and Chief Financial Officer in May 2013. He will stand for election at the 2014 Annual General Meeting.

Experience: He is a chartered accountant and was a Senior Audit Partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices.

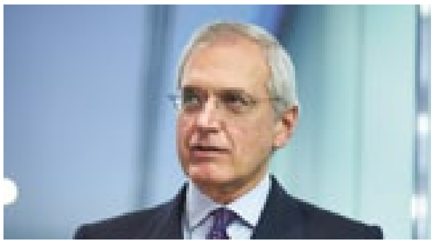
External appointments: None.

**Philip Mallinckrodt**
Group Head of Wealth Management (51)

Appointed a Director in January 2009, having joined Schroders in 1994.

Experience: He started his career with Credit Suisse First Boston. He joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002.

External appointments: Member of the International Advisory Council of the Brookings Institution.



**Massimo Tosato**
Executive Vice-Chairman and Global Head of Distribution (59)

Appointed a Director in August 2001, having joined Schroders in 1995.

Experience: He was a Founding Partner and Chief Executive Officer of Cominvest SpA. and a Partner and Managing Director of Euromercantile SpA. He was Vice President of the European Fund and Asset Management Association.

External appointments: Member of the International Advisory Board of Columbia Business School and a Trustee of the Parasol unit foundation for contemporary art, London.

**Ashley Almanza**
Independent non-executive Director (50)

Appointed a non-executive Director in August 2011.

Experience: He has held a number of executive positions at BG Group including Executive Vice President UK, Europe and Central Asia and Chief Financial Officer from 2002 to 2011. He is a chartered accountant and holds an MBA (London Business School).

External appointments: He is Chief Executive Officer of G4S plc and a non-executive Director of Noble Corporation.

Committee membership: Chairman of the Audit and Risk Committee. Member of the Nominations and the Remuneration Committees.

**Robin Buchanan**
Independent non-executive Director (61)

Appointed a non-executive Director in March 2010.

Experience: He served as the Senior Partner of Bain & Company Inc. in the UK until 2007 and remains a Senior Adviser. He was Dean and President of London Business School.

External appointments: Chairman of Michael Page International plc and a non-executive Director of LyondellBasell Industries N.V. He is a Member of the International Advisory Council of Recipco and the Remuneration Committee of Coller Capital Ltd.

Committee membership: Member of the Nominations and the Audit and Risk Committees.

**Lord Howard of Penrith**
Independent non-executive Director (68)

Appointed a non-executive Director in November 2008.

Experience: He was previously the Deputy to the Chairman of Lehman in Europe until 1998 and was the Partner in charge of international fixed income at Phillips & Drew. He was also Chairman of Tarchon Capital Management LLP from 1998 until March 2013.

External appointments: Chief Investment Officer at Beazley plc.

Committee membership: Chairman of the Remuneration Committee. Member of the Nominations and the Audit and Risk Committees.

**Nichola Pease**
Independent non-executive Director (52)

Appointed a non-executive Director in September 2012.

Experience: She has 30 years' experience in the asset management and stock broking industries. Most recently she was the Chief Executive and then Deputy Chairman of J O Hambro Capital Management Ltd. She was a Trustee and Chairman of the Investment Committee and Member of the Audit Committee of Guy's and St. Thomas' Charity.

External appointments: Non-executive Member of the Executive Committee of the Army Board and Chairman of the Army Independent Assurance Committee. She is a Member of the Eton College Investment Committee.

Committee membership: Member of the Nominations and the Audit and Risk Committees.

**Bruno Schroder**
Non-executive Director (81)

Appointed a Director in January 1963.

Experience: He is the great-great-grandson of John Henry Schroder, co-founder of the Schroders businesses in 1804. He joined the Schroder Group in London where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd, London.

External appointments: Director of a number of private limited companies.

Committee membership: Member of the Nominations Committee.

Merlyn Lowther and Kevin Parry also served on the Board during 2013. They stood down from the Board on 2 May 2013 and 5 May 2013 respectively.

# Group Management Committee and Company Secretary

The Board has delegated the authority to manage the business to the Chief Executive who delegates specific responsibilities to members of the Group Management Committee (GMC). This Committee supports the Chief Executive in running the business and in the delivery of his and the Board's objectives.

## Executive Directors

**Michael Dobson**
Chief Executive (61)

Responsible for the management of the overall business and the strategic development of the Group.

**Richard Keers**
Chief Financial Officer (50)

Responsible for financial management, risk management, tax, capital and treasury, corporate development and human resources.

**Philip Mallinckrodt**
Group Head of Wealth Management (51)

Responsible for the Group's Wealth Management business and Property Investment team.

## Other GMC members

**Geoff Blanning**
Head of Emerging Market Debt and Commodities (51)

Experience: He joined Schroders in 1998 and developed the Commodity and Currency investment teams. He previously managed Global Bond Funds at N M Rothschild and Bankers Trust before developing and managing Morgan Grenfell's first Emerging Market Debt Fund in 1993.

Responsibilities: He is responsible for the investment performance of Emerging Market Debt, Commodities and Currency.

**Karl Dasher**
Head of North America and Co-Head of Fixed Income (44)

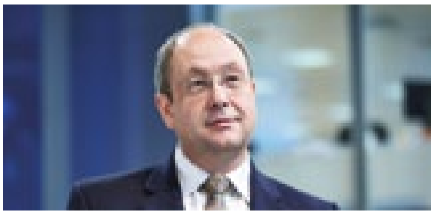
Experience: He joined Schroders in 2007 as Global Head of Product and became Head of Fixed Income in October 2008. He previously worked at SEI Investments in various investment roles, including Chief Investment Officer between 2004 and 2007.

Responsibilities: He is responsible for the Group's operations in North America and is also Co-Head of Fixed Income.

**Peter Harrison**
Head of Equities (47)

Experience: He joined Schroders in March 2013 having been CEO of RWC Partners, an asset management business which he joined in 2006. He was Global Chief Investment Officer of Deutsche Asset Management between 2004 and 2006 having previously been Chief Investment Officer of Global Equities and Multi-asset at J.P. Morgan.

Responsibilities: He is responsible for Equities within the Investment division.



**Markus Ruetimann**
Chief Operating Officer (55)

Experience: He joined Schroders in 2004 from UBS Global Asset Management where he was Global Head of Technology and Portfolio Services. Prior to that he was Chief Operating Officer for Phillips & Drew in London from 1988 to 1998.

Responsibilities: He has global responsibility for Institutional Portfolio Services, Fund Services, Information Technology, Change and Project Management and Corporate Services.

**John Troiano**
Deputy Head of Distribution (55)

Experience: He joined Schroders in 1981 as an investment analyst and became Head of the US equity team in 1988. He established Schroders' emerging market equity capability in 1991. He was appointed Global Head of Institutional in 2003 and became Deputy Head of Distribution in September 2012.

Responsibilities: As Deputy Head of Distribution, he shares responsibility for the Distribution division, including sales, marketing, product development and product management.

**Howard Trust**
General Counsel (59)

Experience: He joined Schroders in 2003 from Barclays where he held various roles including Group General Counsel and Board Secretary. He qualified as a solicitor with Lovell, White & King, before joining Morgan Grenfell in 1985.

Responsibilities: He is responsible for the Group's Compliance, Legal and Corporate Secretariat functions.

**Massimo Tosato**
Executive Vice-Chairman and Global Head of Distribution (59)

Responsible for the Group's global Distribution function, including sales, marketing, product development and product management.

**Philippe Lespinard**
Co-Head of Fixed Income (50)

Experience: He joined Schroders in 2010 as Chief Investment Officer Fixed Income. He was previously a Partner at Brevan Howard and Chief Investment Officer at BNP Paribas Asset Management.

Responsibilities: Within the Investment division, he is jointly responsible for Global Fixed Income.

**Nico Marais**
Head of Multi-asset and Portfolio Solutions (50)

Experience: He joined Schroders in March 2011 from BlackRock, where he was Head of Global Active Portfolio Management in the Multi-asset client solutions group in London. His investment career began in 1989 at the South African Reserve Bank before joining the World Bank in 1994. He joined Barclays Global Investors in 2000 and held various investment roles.

Responsibilities: He is responsible for the Multi-asset and Portfolio Solutions business within the Investment division.

**Richard Mountford**
Head of Asia Pacific (55)

Experience: He joined Schroders in 1980 as a UK equities analyst and held a number of investment roles before becoming Regional Managing Director for South East Asia in 1991. In 2004, he was appointed Head of UK Distribution and in 2008 became Global Head of Intermediary Sales.

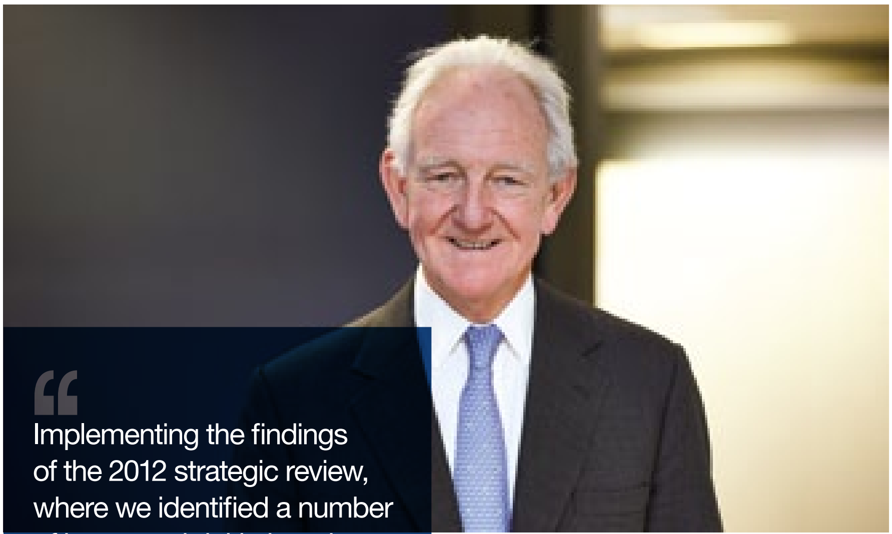
Responsibilities: He is responsible for the Group's operations in the Asia Pacific region.

**Graham Staples**
Company Secretary (52)

Experience: He joined Schroders in 2004. Previously, he has held senior company secretarial, compliance and business development roles at Barclays, Computershare and NatWest.

Responsibilities: Secretary to the Board of Schroders plc and the GMC. He is responsible for the Group's governance, advising the Board and GMC on all governance matters.

# Corporate governance report



“Implementing the findings of the 2012 strategic review, where we identified a number of key growth initiatives, has been a key priority.”

### Board attendance in 2013

During the year there were five scheduled and two ad hoc board meetings.

Details of attendance are set out below:

| | |
|---|---|
| Andrew Beeson, Chairman | 7/7 |
| Executive Directors | |
| Michael Dobson | 7/7 |
| Richard Keers | 5/5 |
| Philip Mallinckrodt | 7/7 |
| Massimo Tosato | 7/7 |
| Non-executive Directors | |
| Ashley Almanza | 7/7 |
| Luc Bertrand | 6/7 |
| Robin Buchanan | 7/7 |
| Lord Howard | 7/7 |
| Nichola Pease | 7/7 |
| Bruno Schroder | 6/7 |
| Other Directors who served during the year | |
| Merlyn Lowther | 2/2 |
| Kevin Parry | 2/2 |

As the UK's largest listed asset management company, Schroders takes its stewardship responsibilities seriously. We aim to apply the same high standards of corporate governance as we expect from the companies in which we invest. The Board is responsible for the oversight of the management of the Company and for ensuring high standards of conduct throughout the business. In preparing the Annual Report and Accounts, the Board and its principal Committees have considered the provisions of the UK Corporate Governance Code, changes to legislation, regulation and best practice corporate reporting and, where appropriate, guidance issued by stakeholder representative bodies.

Implementing the findings of the 2012 strategic review, where we identified a number of key growth initiatives, has been a key priority. These included growing our Wealth Management and Fixed Income businesses and expanding our presence in the US.

The acquisitions of Cazenove Capital and STW, as described on page 32, have delivered on these goals and complemented our organic growth strategy. Looking ahead, our focus is on integrating these businesses successfully to ensure that the value in both acquisitions is realised fully. Central to this will be ensuring appropriate oversight and governance of the enlarged Group.

### Governance framework

Schroders' Corporate Governance Guidelines set out the expectations and responsibilities of the Board, its Committees and the Directors. With continuing change in governance best practice and regulatory expectations, the Guidelines and the Group's other core governance documents (which include the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees) have all been reviewed during the year. They are available on our website.

We expect the regulatory and governance environment to continue to evolve, with numerous consultations from domestic and international governments and regulators underway. Therefore, the Group's governance arrangements will continue to be an area of focus for the foreseeable future.

**Andrew Beeson**
Chairman
5 March 2014

This report is intended to give shareholders a clear and comprehensive picture of the Group's governance arrangements and how they operated during the year.

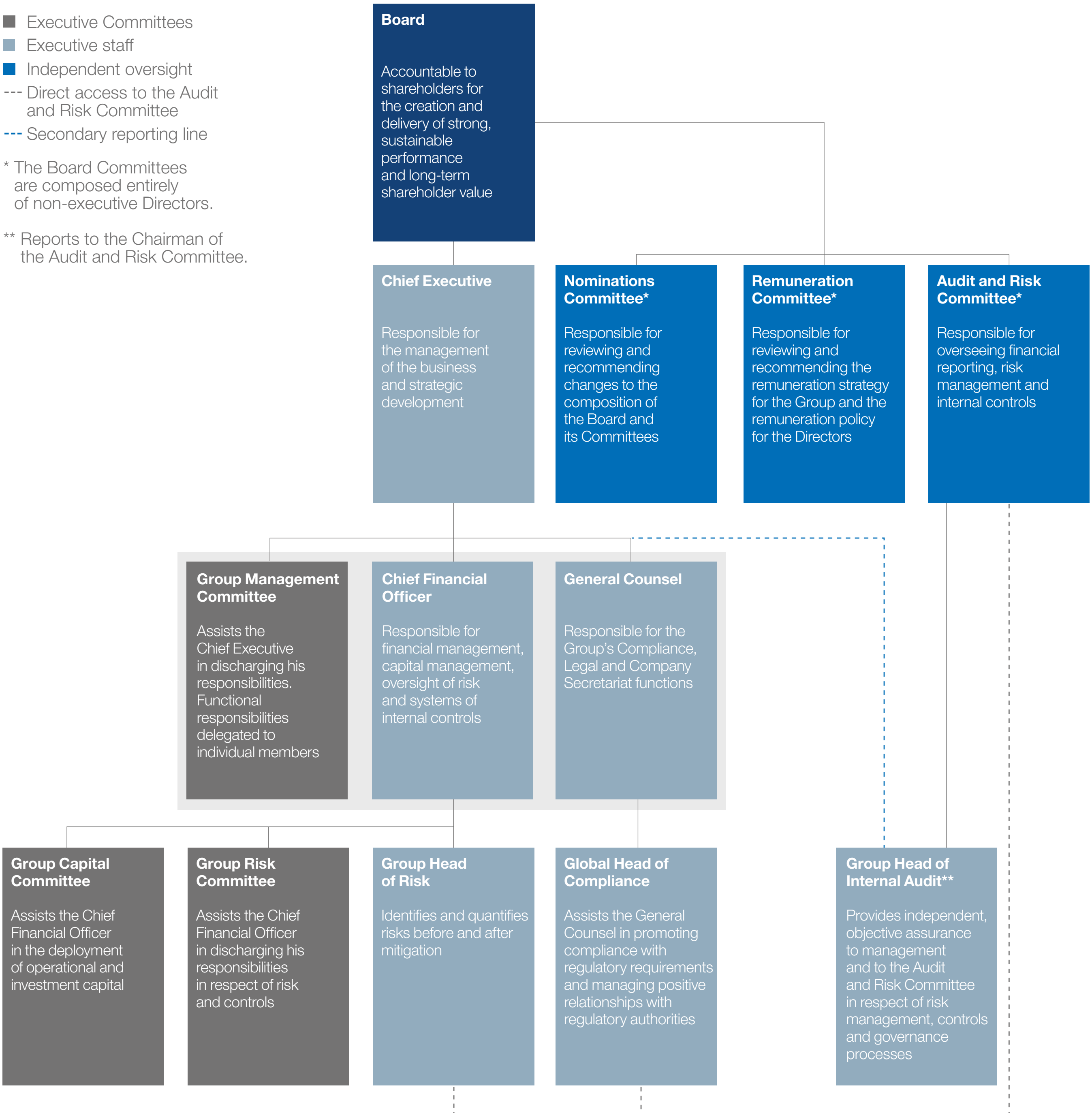
The report structure, which follows the changes we made in 2012 to improve transparency, is as follows:

## Responsibilities of the Board and its Committees

The diagram below explains the Group's core governance framework, how authority is delegated from the Board and how independent oversight at Board level is organised.

The Board is authorised to manage the business of the Company in accordance with the Company's Articles of Association. The Articles of Association may be amended by special resolution of shareholders, unless the Articles specify otherwise. The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board achieves this through its own decision-making, by delegating responsibilities to Board Committees and by delegating authority to manage the business to the Chief Executive within the constraints set by the Board. The principal Board Committees comprise the Nominations Committee, the Audit and Risk Committee and the Remuneration Committee. Reports from each of these Committees follow.

## Governance framework



## Chairman's Committee

In addition to the principal Board Committees, the Chairman has established the Chairman's Committee, whose membership is comprised of the non-executive Directors only, and provides them with an opportunity to discuss matters without management present. This is not a formal Committee of the Board.

## Responsibilities of the GMC

The Chief Executive delegates specific responsibilities to members of the GMC. They manage the day-to-day operations of the Group and support the Chief Executive in the delivery of his and the Board's objectives. The GMC meets fortnightly and is chaired by the Chief Executive. The members and their areas of responsibility are shown on pages 50 and 51.

## Board effectiveness

The Board is committed to operating effectively. Three important elements which support Board effectiveness are: its composition; how it keeps abreast of developments and the business; and how it monitors its own performance. Details of the Board's succession planning arrangements are set out in the Nominations Committee report on page 56. Details of the Group's development arrangements which include induction, training and ongoing briefing sessions and performance evaluation are set out opposite.

## Diversity

The Board recognises the importance of diversity, and that it is a much wider issue than gender. Members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group. The Board believes in the value and importance of diversity throughout the Group and has not considered it appropriate, or in the interests of the Company or its shareholders, to set prescriptive, quantitative diversity targets.

Fundamental to increasing diversity is the development of a pipeline of talented and diverse employees within the business. More information on our approach to diversity can be found on page 44 in the Corporate responsibility section.

## Board focus during 2013

At each of the five scheduled Board meetings, the Board considered reports from the Chief Executive on the performance of the business, including the core areas of Investment, Distribution, Wealth Management and Infrastructure, the Chief Financial Officer's review of the Group's financial performance, including the Group's investment capital and liquidity, and reports on matters considered by the Remuneration and Audit and Risk Committees.

During the year the Board oversaw the continued implementation of the Group's strategy. This included growing the Wealth Management business and our US and Fixed Income businesses through the acquisition and integration of Cazenove Capital and STW. More information on these acquisitions can be found in the Operating review on page 32.

There were two ad hoc Board meetings in 2013. The first was to consider the proposed acquisition of Cazenove Capital. The second was to consider the proposal to move from the Group's five London offices into a single purpose-built office. We anticipate all of our London-based employees will be together in One London Wall Place in 2017. One scheduled Board meeting was held in the US and focused on our North American business and strategy. This had been identified as a key growth area during the 2012 strategic review.

During the year the Board also focused on:
- Investment performance;
- The Group's Wealth Management business and strategy;
- Equities and Fixed Income businesses;
- The Group's IT strategy including the continuing three-year project to introduce a transformational IT platform in support of our fund managers;
- Risk matters including the Group's capital requirements and ICAAP;
- Governance and regulatory developments, including the Group's remuneration arrangements and policy;
- The provision of external audit services; and
- Board effectiveness.

## Induction training

New Directors receive a personalised induction programme to familiarise them with their duties and the Group's businesses, operations, risks and governance arrangements.

The Company Secretary develops an induction programme in consultation with the new Director, the Chairman and the Chief Executive. The programme usually involves meeting Board members and senior members of the management team. In addition, Directors receive information on the Group's history, strategy and any material projects under consideration or which have been considered recently.

## Briefing sessions for Board members

Briefing sessions are held to inform Directors of developments in the business and the asset management industry and other external factors, for example, changes to regulation or accounting practices. The effective delivery of briefing sessions is kept under review and Directors are asked to identify any specific development needs. The sessions are delivered by management or external advisers, as appropriate. Briefing sessions held in 2013 covered regulatory capital requirements, including the Group's ICAAP process, and our joint ventures in India, with Axis Asset Management, and in China, with Bank of Communications Schroder Fund Management Company, and our joint venture with Nippon Life Insurance. Directors also attended various external courses relevant to their responsibilities.

## Board evaluation

The 2013 evaluation process was undertaken internally using a combination of meetings between the Chairman and individual Directors and a questionnaire. Luc Bertrand, as Senior Independent Director, led the evaluation of the Chairman at a meeting with the non-executive Directors and the Chief Executive. The key points arising from the evaluation were documented and discussed with the Chairman.

The overall evaluation process focused on the findings of the 2012 externally facilitated evaluation process, and the actions taken in 2013 to address these findings are set out below.

| Area of focus | Action |
|---|---|
| Creation of more opportunities outside Board meetings for unstructured discussion | The scheduling of Board Briefings and Chairman's Committee meetings is designed to provide non-executive Directors with more opportunities to discuss matters outside formal meetings. The Chairman's Committee is comprised of non-executive Directors only.<br><br>The Chairman meets with non-executive Directors and senior management, including those below Board level, on an ad hoc informal basis which provides an opportunity for matters to be raised outside the normal cycle of meetings. |
| Enhancement of Group strategy discussions through more analysis of the external landscape | During our 2012 strategic review we identified our intention to grow our US business. One Board meeting was held in the US during 2013 to review progress towards our goal of expanding our presence in the region. In support of its US strategy discussions, the Board received a presentation from an external US economist, which focused on US monetary policy and its potential influence on the US and global economy.<br><br>The Board also reviewed the Wealth Management business and the acquisition of Cazenove Capital, and considered two of the key growth areas (Equities and Fixed Income). |
| Assessment of the Board's skills to support the Group's strategy | See the Nominations Committee report on page 56. |

Feedback from the 2013 evaluation process indicated that progress had been made in all these areas.

The performance of the Chief Executive in managing the business was considered by the Chairman and was discussed with the Chief Executive.

# Nominations Committee report

> "Our focus has been the Board's composition and medium-term succession planning."

The focus in 2012 was on the Board's short-term succession plans. Including the appointment of Nichola Pease and Richard Keers, the Board has a good mix of skills and experience which meet the Group's requirements. The focus in 2013 has been on the Board's medium-term succession planning.

**Andrew Beeson**
Chairman of the Nominations Committee
5 March 2014

### Committee attendance in 2013

During the year there were two meetings.

Details of attendance are set out below:

| | |
|---|---|
| Andrew Beeson | 2/2 |
| Ashley Almanza | 2/2 |
| Luc Bertrand | 2/2 |
| Robin Buchanan | 2/2 |
| Lord Howard | 2/2 |
| Nichola Pease | 2/2 |
| Bruno Schroder | 2/2 |
| Other Directors who served during the year | |
| Merlyn Lowther | 1/1 |

The Chief Executive is usually invited to attend Committee meetings.

### Responsibilities

The role of the Committee is to make recommendations to the Board in order to ensure that the composition of the Board and its Committees is appropriate and to ensure appropriate succession plans are in place.

### Activities

We have a Board which is fully compliant with the UK Governance Code requirements and which meets our own objectives of having an appropriate mix of executive Directors, independent non-executive Directors and Directors with a connection to the principal shareholder group.

There have been no immediate succession issues for the Committee to consider, but it is aware of the need to look to the medium to long term to ensure we always have a strong and effective Board which meets the requirements of the Group and its shareholders. The focus in 2013 was therefore on medium-term succession planning.

In response to the findings of the external evaluation process undertaken in 2012, the Chairman commissioned the production of a Board skills matrix which matched the skills and experience of the non-executive Directors to the Group's key business areas and its strategic aims.

The key areas of the Committee's work cover:

- Reviewing the size and composition of the Board and its Committees;
- Board succession planning;
- Making recommendations to the Board with respect to the role, capabilities and time commitment for each appointment, giving due consideration to the balance of skills, experience and knowledge on the Board and the benefits of diversity;
- The procedure for the appointment of new Directors;
- Identifying and recommending for the approval of the Board, potential candidates to fill Board and Committee vacancies;
- Developing and recommending appropriate criteria for Director independence;
- Reviewing the terms of appointment for non-executive Directors; and
- Conducting an annual review of the Committee's performance.

The matrix was used by the Committee to help define the outline role profile for the next non-executive Director. The Committee considered medium-term Board succession in detail in November 2013 and agreed to start a search for an additional independent non-executive Director.

The Chairman reviewed the process for identifying candidates and it was agreed that an external search firm should be used. Proposals were considered from a number of search firms. Following this, Odgers Berndtson was appointed to undertake the assignment in January 2014. It is independent of Schroders and has not acted for the Group on any other matter during the year. A detailed role specification was produced and the search is currently underway, although there is no target date for an appointment.

The Nominations Committee considers diversity, including the balance of skills, experience, gender and nationality, amongst many other factors when reviewing the appointment of new Directors. The Board's policy on diversity is set out on page 54 and more information on the Group's approach to diversity in the wider business is set out on page 44.

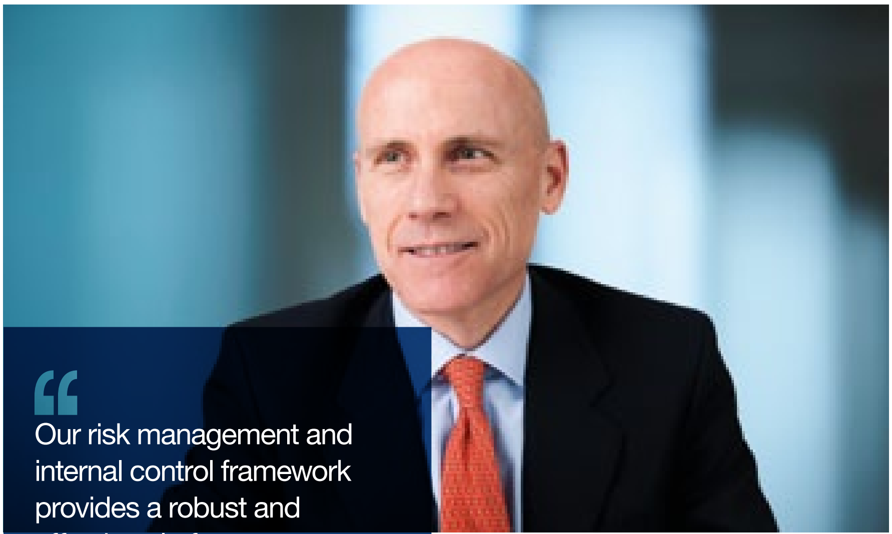
The Committee also reviewed the Directors standing for election or re-election at the Annual General Meeting, taking into account their effectiveness, commitment and any conflicts of interest. The Committee reviewed the independence of the non-executive Directors and concluded that all were independent other than Bruno Schroder, due to his relationship with the principal shareholder group. All Directors standing for election or re-election are recommended by the Committee and the Board.

**Support**

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee has the right to appoint external advisers, although none were used during 2013.

**Andrew Beeson**
Chairman of the Nominations Committee
5 March 2014

# Audit and Risk Committee report



"Our risk management and internal control framework provides a robust and effective platform to support the business in responding to regulatory or commercial developments whilst ensuring the integrity of our financial reporting."

This is my first report as Chairman of the Committee, having taken over from Merlyn Lowther in May 2013. Against a backdrop of continuing change, particularly in relation to capital requirements, risk management and the external audit environment, the regulatory obligations on asset and wealth management businesses have continued to develop. These have been consistent themes throughout the Committee's discussions during the year and were taken into account when considering the key risks affecting the Group. These are set out on pages 36 to 41.

As both an investor and a listed company, we recognise the importance and value of transparent company reporting. The Committee also supports greater transparency in connection with tax reporting and Schroders is committed to conducting its tax affairs in an open and transparent way. More information on the Group's approach in this area is set out on page 42. In this report we describe the role of the Committee and its key areas of focus.

**Ashley Almanza**
Chairman of the Audit and Risk Committee
5 March 2014

## Committee attendance in 2013

During the year there were five scheduled meetings and one ad hoc meeting.

Details of attendance are set out below:

| | |
|---|---|
| Ashley Almanza | 6/6 |
| Robin Buchanan | 6/6 |
| Lord Howard | 6/6 |
| Nichola Pease | 3/3 |
| Other Directors who served during the year | |
| Merlyn Lowther | 2/2 |

At the invitation of the Chairman of the Committee, the Chairman, Chief Executive, Chief Financial Officer and Bruno Schroder attended most meetings. Other regular attendees who advised the Committee were the Group Financial Controller, the heads of Compliance, Risk and Internal Audit and the General Counsel. Other members of senior management were also invited to attend as appropriate. Representatives from the Group's auditor, PwC, attended all of the Committee's scheduled meetings.

## Private meetings

During 2013, two private meetings were held with PwC without management present. Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for matters to be raised confidentially.

The key areas of the Committee's work cover:

**Audit and operational 'business as usual' risks**

- Monitoring the content and integrity of financial reporting;
- Reviewing the appropriateness of accounting judgements;
- Reviewing the Group's risk and control framework, including the Group's whistleblowing procedures;
- Reviewing the Group's regulatory processes and procedures and its relationships with regulators;
- Reviewing the effectiveness of the external auditors;
- Recommending to the Board the appointment of external auditors; and
- Reviewing the Group's internal audit function.

**Forward-looking emerging and thematic risks**

- Considering emerging and thematic risks which may have a material impact on the Group's operations in the future.

### Responsibilities and activities

The Committee seeks to encourage and safeguard high standards of integrity and conduct, financial reporting, risk management and internal controls. Its activities cover audit and operational 'business as usual' issues and risks as well as forward-looking emerging and thematic risks.

The principal areas of the Committee's work in 2013 are summarised below.

#### Financial reporting

The Committee is responsible for reviewing the 2013 half-year results and the Annual Report and Accounts, before recommending them to the Board for approval. The Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in connection with the preparation of the financial statements. To assist its reviews, the Committee considered reports prepared by Group Finance addressing presentational issues, business and other developments and accounting policies. It also reviewed the key judgemental issues and estimates, including those in respect of acquisition accounting, financial assets, goodwill and intangible assets, provisions and contingent liabilities, and retirement benefit obligations. The Committee also considered reports from PwC providing an independent assessment of financial reporting, an audit opinion on the Annual Report and Accounts and an independent report on the half-year results.

The Committee is required to report to shareholders, in the Annual Report and Accounts, on the process it follows in its review of 'significant' judgemental issues it has considered during the year. These significant issues are set out below:

| Significant financial judgements and financial reporting for 2013 | How these were addressed |
|---|---|
| The key judgements used in determining the Provisions and Contingent Liabilities where there is uncertainty over the timing of settlement or amount.<br><br>See note 19 to the accounts. | Detailed reports were prepared by Group Finance, addressing judgemental issues, accounting developments and estimates. Reports were also provided regarding actual or potential claims against the Group. These outlined the assumptions used in determining the level of provisions and contingent liabilities and, where appropriate, the release of unused provisions. Judgements, which included an estimate of the potential future outcome of issues and the Group's ability to access insurance, were considered with management and were also discussed in detail with PwC.<br><br>As part of this regular review, the Committee reviewed management's assessment of the Group's participation in the US Department of Justice programme, announced on 29 August 2013, that applies industry wide to Swiss banks in order to identify accounts related to clients who may not have been US-tax compliant. The Committee also considered and discussed with management and PwC the work performed by Wealth Management and the external auditors in assessing the value of the related provision in accordance with International Financial Reporting Standards, the main areas of uncertainty and the appropriateness of the related disclosures contained within this Annual Report and Accounts.<br><br>The Committee considers that the judgements made by management in respect of all of the provisions and contingent liabilities are reasonable and that appropriate disclosures have been included in the accounts. |
| The accounting for acquisitions during the year, including fair value assessments of consideration and assets and liabilities acquired and the presentation of certain items as exceptional in the income statement.<br><br>See notes 1 and 28 to the accounts. | The Committee considered reports prepared by Group Finance that set out the basis for determining material components of the acquisitions, including key assumptions used to determine the acquired intangible asset and goodwill. The Committee considered the work performed by Group Finance in establishing the key assumptions, including the term of client relationships, the profit before tax from those relationships and the discount rate. The Committee also considered the performance of the acquired business since acquisition and whether there was any need to impair either goodwill or acquired intangible assets. Having considered the supporting information, the Committee was satisfied with the basis used to determine the carrying value of those assets and that no impairment was required.<br><br>The Committee also reviewed the accounting policy for exceptional items and the disclosure of those items in a separate column in the consolidated income statement. This presentation is considered appropriate as it provides a transparent view of certain items and the underlying performance of the business. For 2013 those items mainly comprise the Cazenove Capital and STW acquisitions and a provision in respect of the DOJ programme explained above. |

### Risk management and internal controls

The Board has overall responsibility for the Company's system of internal controls and has delegated to the Committee responsibility for reviewing the effectiveness of the internal controls framework.

On behalf of the Board, the Committee carried out the annual assessment of the effectiveness of internal controls during 2013, including those related to the financial reporting process. In addition, to assist the Committee with its continual assessment of risk management and internal controls, it received quarterly reports from the Group heads of Internal Audit, Compliance, Risk and the General Counsel, together with other reports on specific issues.

The Company's system is designed to manage rather than eliminate the risk of failure to achieve our strategic goals and can only provide reasonable assurance against material misstatement or loss.

As part of its review of the financial statements, the Committee considered key financial reporting risks arising from changes to the business and accounting standards. It also received a report from the Group Financial Controller confirming the operation of the controls over the financial reporting process including the Group's consolidated accounts. This outlined the financial reporting control framework, including the operation of a Group-wide general ledger, consolidation system and preventative and detective controls, which include automated system controls on high-volume, low-value transactions and key resources responsible for their operation. Key controls in Group Finance are subject to external audit as well as being periodically tested by Internal Audit.

Internal Audit reports describe progress against the rolling plan of audits approved by the Committee, any significant findings from audits and their subsequent remediation, and recommendations to improve the control environment. Following the publication of standards to be applied by internal audit functions operating in the financial services sector, the reporting line for the Head of Group Internal Audit was changed. The Committee has authority to appoint or remove the Group Head of Internal Audit, who now reports directly to the Chairman of the Committee (with a secondary reporting line to the Chief Executive). The Chairman of the Committee is accountable for setting the objectives of the Group Head of Internal Audit, appraising his performance against those objectives and for recommending his remuneration to the Remuneration Committee, with advice from the Chief Executive. The Committee also has responsibility for the Internal Audit budget.

Compliance reports highlight compliance matters, including the status of our relationships and dealings with our principal global regulators and other issues as appropriate. The report also outlines international developments in the regulatory environment in which the Group operates.

Risk reports set out changes in the level or nature of the risks faced by the Group, developments in risk management and significant errors and omissions. Separate reports allowed the Committee to consider the most significant risks faced by the Group and assessments of risk tolerance, as well as the construction, output and stress testing of the ICAAP. The Group's Pillar 3 disclosures, which are available on our website, were also reviewed by the Committee. Key topics discussed by the Committee included the Eurozone, regulatory and legal risk, contingent liabilities, operational risk, investment risk, internal controls, counterparty credit risk, acquisition integration risk and technology risk. The most significant developments in the risk profile of the business are set out on page 35.

The Group's three lines of defence model provides an ongoing process for identifying, evaluating and mitigating risks faced by the Company as set out on page 35. The effectiveness of this model was reviewed during the year.

The Committee also focused on specific control recommendations within Wealth Management and received reports and considered recommendations to strengthen the investment management process, compliance activities (particularly in respect to monitoring) and other control activities arising from mandate compliance reviews with respect to certain client investments in mainly unlisted securities. We also intend to establish an independent Audit and Risk Committee for the Wealth Management business, which will be chaired by an independent non-executive Director of Schroder & Co. Limited.

Lessons learned from operational events reported to the Committee by Internal Audit or management, together with the ongoing development of the control functions and general market practice, mean there are often areas of development that are monitored through specific reports and periodic updates. Where appropriate, these developments or the implementation of lessons learned are assessed against a targeted timescale for delivery.

The Committee is also responsible for reviewing the Group's whistleblowing arrangement by which employees may, in confidence, raise concerns about possible improprieties in matters of financial

Group Finance is responsible for the preparation of the Group's financial statements.

reporting or any other matter relating to the Group's operations, and for overseeing arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action. During the year, the Committee approved a number of amendments to the Group's whistleblowing policy.

The Committee also considers emerging and thematic risks that may have a material impact on the Group and for which the Group may need to prepare. During the year, the Committee considered liquidity in the fixed income market due to the risk of significant redemptions in the market. The impact of tightening liquidity on the business, our position relative to peers and other options available in certain stress scenarios, together with the risk management process, were discussed.

In addition, the Committee considered the Group's increased use of derivatives to support the development of our business and was pleased to note investment in enhancements to the supporting infrastructure, risk management process and controls, taking into account the introduction of central clearing and reporting.

The Group's overall approach to Corporation Tax is reviewed annually. In addition to receiving an assessment from management, the Group's approach to Corporation Tax is discussed with the external auditors.

In light of its work, the Committee was content with the effectiveness of the Group's processes governing financial and regulatory reporting, its ethical standards and its relationships with regulators. The Committee was satisfied with the appropriateness of the Group's risk monitoring, internal controls framework and lines of defence model.

## External audit

Our 2012 Annual Report described the audit tender process undertaken last year. Two firms, PwC and KPMG, demonstrated better the resource, expertise, quality control and audit approach to deliver a high standard of audit. PwC was reappointed at the 2013 Annual General Meeting after KPMG advised the Company that it did not meet the regulatory requirements for independence in order to be recommended to shareholders as the Group's auditors.

During the 2013 audit, PwC addressed potential improvements to the audit process which were identified during the tender process. This included changes to its senior team and the need for greater emphasis on Wealth Management. This resulted in the appointment of Andrew Kail as the lead engagement partner. In the light of these changes, the Committee has recommended to the Board that PwC should be reappointed for the 2014 audit.

There are no contractual or similar obligations restricting the Group's choice of external auditors.

## External auditors – objectivity and effectiveness

The Committee places great importance on the quality and effectiveness of the external audit process.

Each year, at the conclusion of the audit, the Committee evaluates the performance of the external auditors. This includes an assessment through a questionnaire completed by Directors and senior representatives of relevant functions across the Group. In 2013, PwC was assessed on Oversight and Governance; Quality of Planning and Delivery; People and Succession; and Value from the Audit. Audit effectiveness is also assessed throughout the year using a number of measures, including:
- Reviewing the quality and scope of the proposed audit plan and progress against the plan;
- Responsiveness to changes in our business;
- Monitoring the independence and transparency of the audit and the auditor; and
- Reviewing the Financial Reporting Council's Audit Quality Review (AQR) reports for the 'Big Four' audit firms.

There were no significant adverse findings from the 2013 evaluation and the Committee concluded that PwC continued to provide a high quality audit.



Risk reports set out changes in the level or nature of risks faced.

## External auditors – independence

PwC, or its predecessor firms, have been the Company's auditors since Schroders became a listed company in 1959. In order to help safeguard the independence and objectivity of the auditors, the Committee maintains a policy on the engagement of the external auditors to provide non-audit services. This precludes the provision of services that might lead to a conflict of interest and contains rules regarding the approval of permitted non-audit services.

The Committee has delegated authority to management to consider and approve the provision of permitted non-audit services by the auditor with a value for each engagement below £100,000. Any engagement above this level or where total fees for non-audit services are expected to exceed certain thresholds, requires prior approval from the Chairman of the Committee. Prior to undertaking any non-audit service, PwC also completes its own independence confirmation processes which are approved by the senior statutory auditor. To provide the Committee with oversight in this area, it receives six-monthly reports on the non-audit services provided.

During the year the total fees paid to PwC were:

| | 2013 £m | 2012 £m |
|---|---|---|
| Audit | 3.0 | 2.7 |
| Audit-related | 0.2 | 0.3 |
| Non-audit related | | |
| – Assurance services | 0.4 | 0.3 |
| – Tax advisory services | 0.7 | 0.6 |
| – Tax compliance services | 0.5 | 0.5 |
| – Other non-audit services | 1.5 | 1.5 |
| Total non-audit related | 3.1 | 2.9 |
| Total | 6.3 | 5.9 |
| Percentage of audit and audit-related fees to total fees | 51% | 51% |

The Committee was satisfied that the quantity and type of non-audit work undertaken did not impair PwC's independence or objectivity and that their appointments were determined to be in the best interests of shareholders due to PwC's pre-existing knowledge of the Group's practices. The Group's overall approach is not to use PwC unless there is a strong case for not seeking an alternative supplier. The Group is seeking to diversify its supplier base, particularly for human resources and certain tax-related services, to reduce the level of non-audit services fees paid to PwC.

The Committee is also responsible for the policy on the employment of former employees of the external auditors and a policy which restricts Group Finance employees from entering into personal arrangements with the external auditors.

'The appointment of Richard Keers as Chief Financial Officer complies with our policy and relevant professional rules (see page 53 of the 2012 Annual Report & Accounts).

## Evaluating the performance of the Committee

The Committee's performance is evaluated annually. The findings of the review in respect of 2013 were discussed by the Committee and with the Chairman of the Board.

**Ashley Almanza**
Chairman of the Audit and Risk Committee
5 March 2014

# Compliance with the UK Corporate Governance Code ('the Code')

Throughout the year, the Company has applied the main principles of the Code and has complied with all provisions of the Code as set out below.

Copies of the Code can be obtained from the UK Financial Reporting Council's website at **www.frc.org.uk**.

## A: Leadership

### A.1 Role of the Board

The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board meets formally on a regular basis to review performance and strategy against its objectives and there is a clear schedule of matters reserved for the Board.

### A.2 Division of responsibilities

The separate roles of the Chairman and Chief Executive are set out in writing and have been agreed by the Board. The Chairman is responsible for the leadership and effectiveness of the Board. The Board delegates some responsibilities to Board Committees and the authority to manage the business to the Chief Executive. The Chief Executive is responsible for the executive management and strategic development of the Group and its businesses.

### A.3 Role of the Chairman

The Chairman, who was independent on appointment, is responsible for leading the Board, ensuring its effectiveness, setting agendas for meetings, and promoting a culture of openness and constructive debate. As Chairman of the Nominations Committee, the Chairman also oversees the Board's succession planning.

### A.4 Role of the non-executive Directors

Non-executive Directors are expected to monitor the performance of management in meeting agreed objectives while satisfying themselves on the integrity of financial information and that financial controls and risk management systems are robust and appropriate.

The non-executive Directors participate fully in open and constructive Board and Committee meetings and their views are actively sought, particularly when setting and developing strategy. During the year the Chairman and non-executive Directors also met, as the Chairman's Committee, on three occasions prior to Board meetings. Matters discussed included the areas of feedback from the 2012 externally facilitated Board evaluation which included strategy and succession planning.

## B: Effectiveness

### B.1 Composition of the Board

The composition and size of the Board and its Committees are reviewed regularly by the Nominations Committee to ensure they have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. See the Nominations Committee report on page 56. Biographies provided on pages 48 and 49 identify the experience that each Director brings to the Board. Bruno Schroder does not meet the test for independence under the UK Corporate Governance Code in view of his relationship with the principal shareholder group and because he has served on the Board for more than nine years. No-one other than Committee members is entitled to attend Committee meetings. Details of other attendees at Committee meetings are set out in the Committees' respective reports.

### B.2 Appointments to the Board

The Nominations Committee, which comprises all the non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. The Nominations Committee report on page 56 describes the role of the Committee. The rules providing for the appointment, election, re-election and removal of Directors are contained in the Company's Articles of Association.

### B.3 Time commitments

The time commitment expected of non-executive Directors to discharge their duties is outlined in their terms of appointment. The Board considers the time commitments of all Directors standing for election or re-election before recommending them to shareholders. The Board has adopted a policy that does not allow executive Directors normally to take up more than one non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional non-executive appointments. Details of external appointments are set out on pages 48 and 49. Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at the Annual General Meeting.

### B.4 Development

Details of the Board's approach to development, including induction and training, are set out in the Board effectiveness section on page 54.

### B.5 Information and support

The Company Secretary ensures that appropriate and timely information is provided to the Board and its Committees and that there are good information flows between senior management and non-executive Directors. The Company Secretary is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the advice and services of the Company Secretary and can arrange through him to receive professional advice independently of the Company, at the Company's expense.

### B.6 Evaluation

Details of the Board's approach to the evaluation of its effectiveness are set out on page 55. The Board undertook an externally facilitated evaluation in 2012.

### B.7 Re-election of Directors

Other than Merlyn Lowther and Kevin Parry, who stepped down from the Board on 2 May 2013 and 5 May 2013 respectively, all Directors at that time stood for election or re-election at the 2013 Annual General Meeting. All Directors will stand for election or re-election at the 2014 Annual General Meeting. The Notice of Annual General Meeting sets out relevant information to enable shareholders to make an informed decision on the election and re-election of Directors.

## C: Accountability

### C.1 Financial and business reporting

The Directors' statement of responsibilities for the preparation of the Annual Report and Accounts, which, when taken as a whole, is considered fair, balanced and understandable and as providing the information necessary for shareholders to assess the Company's performance, business model and strategy, is set out on page 83. The going concern statement can be found on page 82. The Strategic report is on pages 2 to 45 and 86 to 97.

# Compliance with the UK Corporate Governance Code ('the Code') continued

### C.2 Risk management and internal control

The Board determines the nature and extent of the significant risks it is willing to take in achieving its strategic goals and maintains sound risk management and internal control systems that are reviewed annually. The activities of the Audit and Risk Committee, which supports the Board in discharging this responsibility, are set out on page 59. The systems can provide only reasonable and not absolute assurance against material financial misstatement or loss and are designed to mitigate, not eliminate, risk. The responsibilities in respect of risk and internal control do not extend to the Group's joint ventures and associates.

### C.3 Audit Committee and auditors

The Audit and Risk Committee report on pages 58 to 62 describes the responsibilities of the Committee and how it ensures the auditor's objectivity, effectiveness and continued independence. The report also describes the change to the reporting line of the Head of Group Internal Audit to the Chairman of the Audit and Risk Committee.

## D: Remuneration

### D.1 Level and components of remuneration

Details on Directors' remuneration and how the Company promotes the alignment of interests between Directors, clients and shareholders by linking reward to performance are explained in the Remuneration report on page 66.

### D.2 Procedure for developing policy on executive remuneration

The Group's approach to setting remuneration policy is set out in the Remuneration report on page 66.

## E: Relations with shareholders

### E.1 Dialogue with shareholders

The Board ensures that the Company maintains a relationship with shareholders through a regular programme of presentations and meetings to inform institutional investors, analysts and prospective shareholders, attended by the Chief Executive, Chief Financial Officer and other senior executives. The Company holds in excess of 100 such meetings each year. Information about significant developments, financial statements and other corporate information is made available on our website. Feedback from shareholders is reported to the Board as appropriate.

The Senior Independent Director is available to shareholders as an alternative means of communication with the Board should they have concerns that cannot be resolved by discussions with the Chairman or executive Directors.

### E.2 Constructive use of the AGM

The Annual General Meeting provides shareholders with an opportunity to question the Board. The Chief Executive provides a review of the Group's performance and informs shareholders of the first quarter results. The Annual Report and the Notice of Annual General Meeting are available to shareholders at least 20 working days before the meeting. All Directors are available to attend the Annual General Meeting and the results of the poll on the resolutions proposed are published on the Company's website as soon after the meeting as practicable.

# Ownership, capital structure and voting rights

Schroders has developed under stable ownership for more than 200 years and has been a public company listed on the London Stock Exchange since 1959. The Schroder family interests are in shares owned by trusts settled by members of the family and in personal shareholdings. Relevant statutory and regulatory disclosures are set out in the table below.

The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. Both are listed on the London Stock Exchange.

226,022,400 ordinary shares were in issue throughout the year. The Company has no authority to issue or buy back any ordinary shares.

The non-voting ordinary shares were created in 1986 to facilitate the operation of an employee share plan without diluting the voting rights of ordinary shareholders. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not provide the right to attend and vote at general meetings of the Company and that, on a capitalisation issue, they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting ordinary shares were created the ratio of ordinary shares to non-voting ordinary shares was 4:1. The Company has at times issued non-voting ordinary shares, principally in connection with the Group's employee share plans. The Company has not intended and does not intend to increase the issued non-voting ordinary share capital over the medium term and therefore has, at times, bought back non-voting ordinary shares.

At the 2013 Annual General Meeting shareholders gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares. Shareholders also renewed the Directors' authority to issue non-voting ordinary shares up to an aggregate nominal value of £5,000,000 in order to provide the Directors with the flexibility to issue non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares. Renewal of these authorities will be sought at the 2014 Annual General Meeting.

At the start of the year there were 56,505,600 non-voting ordinary shares in issue, of which 81,097 were held in treasury. During the year 1,792,035 non-voting ordinary shares were issued and, as the Company does not intend to increase the issued share capital over the medium term, 1,521,468 non-voting ordinary shares were bought back and cancelled. The 81,097 non-voting ordinary shares held in treasury were also cancelled. The result of these transactions was that as at 31 December 2013, 56,695,070 non-voting ordinary shares were in issue, none of which were held in treasury.

Between 1 January 2014 and 5 March 2014 inclusive, being the latest practicable date before the publication of this Annual Report, a further 189,470 non-voting ordinary shares have been bought-back and cancelled and the number of non-voting ordinary shares in issue as at 5 March 2014 was 56,505,600.

Under the terms of the Schroders Employee Benefit Trust and the Schroders US Holdings Inc. Grantor Trust, the trustees may vote in any way they think fit. In doing so, they may consider the financial and non-financial interests of the beneficiaries and their dependents. Under the terms of the Share Incentive Plan (see page 81), shares are held in trust on behalf of plan participants. At the participants' direction, the trustees can exercise the voting rights in respect of their share entitlements.

There are no restrictions on the transfer of the Company's shares save for:

- restrictions imposed by laws and regulations;
- restrictions on the transfer of shares imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders which may restrict the transfer of securities or voting rights.

## Substantial shareholdings

As at 31 December 2013, the Company had received notifications, in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R, of interests in three per cent. or more of the voting rights attaching to the Company's issued share capital, as set out in the table below.

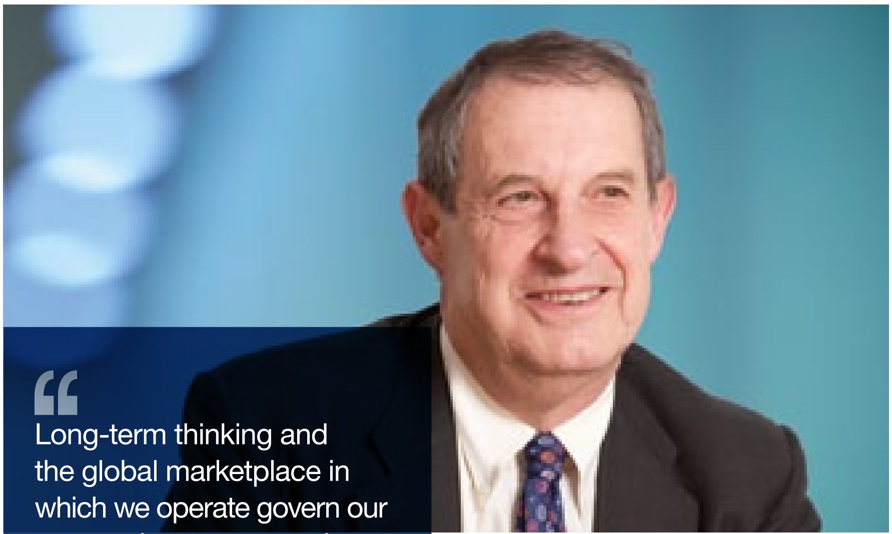
There had been no changes to these notifications as at the date of this report.

| Notifier | Class of shares | No. of voting rights held indirectly | % of voting rights held indirectly |
|---|---|---|---|
| Vincitas Limited[1] | Ordinary | 60,724,609 | 26.87 |
| Veritas Limited[1] | Ordinary | 36,795,041 | 16.28 |
| Flavida Limited[2] | Ordinary | 60,951,886 | 26.97 |
| Fervida Limited[2] | Ordinary | 40,188,706 | 17.78 |
| Harris Associates L.P. | Ordinary | 15,969,200 | 7.07 |

[1] Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder family.

[2] The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees.

# Remuneration report



> "Long-term thinking and the global marketplace in which we operate govern our approach to remuneration. We seek to pay for performance; align the interests of employees and shareholders; and incentivise and retain talented individuals."

Pay for performance remains critical to our philosophy. We cap compensation at the Group level within an agreed compensation to revenue ratio, and not at the individual level, as we believe this is key to the success of the firm and is in the best interests of shareholders. An annual target is set for the percentage of revenues allocated to compensation and a profit share ratio is used to manage variable compensation. These align the level of compensation with the Group's financial performance. We defer a significant proportion of variable compensation into shares and fund awards, aligning employee interests with those of shareholders and clients. This approach has allowed us to keep base salaries relatively low, controlling our cost base when times are challenging, as well as attracting and retaining the best talent, who know that good performance will be rewarded.

We aim to keep the compensation to operating revenue ratio within a band of 45 to 49 per cent. through a market cycle. In 2013 we have seen record results, with profit before tax and exceptional items up 41 per cent. to £507.8 million. At the same time, headcount has increased, due to a combination of the acquisitions of STW and Cazenove Capital and continued long-term investment in organic growth. The strong performance allowed the Board to reduce the compensation to operating revenue ratio for 2013 to 46 per cent. (2012: 49 per cent.).

The executive Directors' annual variable compensation is assessed on a combination of the Company's results against key performance indicators and the achievement of personal and strategic objectives. Awards have increased in 2013 in recognition of record profitability this year and achievement against the Group's strategic goals. This year, we also increased executive Directors' salaries, which had not changed since June 2007, to bring them into line with comparable salaries in other firms. The increase was less than the average received by other employees over the same period.

During 2013, the Committee identified that Schroders might have been subject to recent revisions to the European Capital Requirements Directive (CRD IV). This would have imposed an individual cap on variable compensation for certain key employees, including the executive Directors. However, clarification of the PRA's approach means this cap does not apply to us. The Group will seek shareholder approval to amend the Directors' remuneration policy if these rules become applicable to Schroders in the future.

During the year, we reviewed the rules of our deferred remuneration plans and approved changes to strengthen the safeguards for the Company. Terms that allow deferred remuneration that has been granted but not yet released to be reduced or forfeited in certain circumstances were strengthened for future awards. 'Clawback' terms were agreed, which allow the Company to recover amounts that have been released in the event of individual misconduct. The Equity Incentive Plan was also amended to require participants to be employed continually by the Group until the fifth anniversary of grant for any element of the award to vest.

Each year, the Committee reviews how shareholders voted on the remuneration report, together with any feedback received. There was no direct shareholder consultation on remuneration during 2013 as the Committee did not materially change the remuneration policy. This year we have made significant changes to our Remuneration report, to both aid clarity and transparency and comply with new reporting requirements. The remuneration report has been divided into two main sections:
- The Directors' remuneration policy, which will be subject to a binding shareholder vote at the Annual General Meeting on 1 May 2014. The policy set out in this report will apply from the date it is approved by shareholders; and
- The Annual report on remuneration, which provides information on Directors' remuneration during the year and, together with this statement, will be subject to an advisory vote at the Annual General Meeting.

I hope that you will find the additional information and improvements that we have made to this report helpful.

**Lord Howard of Penrith**
Chairman of the Remuneration Committee
5 March 2014

**Structure of the Remuneration report**

## Responsibilities of the Remuneration Committee

The responsibilities of the Committee include:

- Reviewing the Group's remuneration strategy and recommending to the Board the Directors' remuneration policy;
- Determining the remuneration of executive Directors, within the Directors' remuneration policy;
- Determining remuneration for the Company Secretary, reviewing remuneration of the heads of Compliance, Internal Audit, Legal and Risk, monitoring the level and structure of remuneration for other senior employees, and overseeing employee compensation more broadly across the Group;
- Recommending to the Board the annual spend on fixed and variable compensation;
- Reviewing the design and operation of share-based remuneration and other deferred remuneration plans;
- Overseeing any major change in the employee benefits structure throughout the Group;
- Reviewing the remuneration disclosures required and ensuring compliance with those requirements; and
- Receiving and considering feedback from shareholders and representative shareholder bodies.

The Board has amended the Committee's Terms of Reference to reflect the new directors' remuneration reporting regime in the UK and other regulatory changes, as well as clarifying aspects of the Committee's responsibilities. The Committee's terms of reference are available at **www.schroders.com/ir**.

## Committee attendance in 2013

During the year there were six meetings. Details of attendance are set out below:

| | |
|---|---|
| Lord Howard of Penrith (Chairman) | 6/6 |
| Ashley Almanza | 5/6 |
| Luc Bertrand | 6/6 |

At the invitation of the Committee Chairman, the Chief Executive attended six meetings. Bruno Schroder attended four meetings and Andrew Beeson attended two meetings. Kevin Parry attended one meeting as Chief Financial Officer and Richard Keers attended four meetings. The Chief Executive and Chief Financial Officer were not present during discussions relating to their own remuneration.

The Group Head of Risk, the Global Head of Compliance and the General Counsel also advised the Committee on matters that could influence remuneration decisions. The Global Head of Human Resources, the Head of Compensation and Benefits and the Head of HR Solutions attended meetings to provide advice and support the Committee with secretarial services.

## Evaluation of the Remuneration Committee

The Committee's performance is evaluated annually. The findings of the review were discussed by the Committee and with the Chairman of the Board.

## Remuneration principles

The Committee has developed the remuneration policy with a number of principles in mind. The overall policy should be:

| | |
|---|---|
| **Competitive** | Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market. |
| **Aligned with shareholders** | A significant proportion of variable remuneration is delivered in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. In addition, executive Directors and other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300 per cent. of annual base salary. |
| **Aligned with clients** | A proportion of key employees' variable remuneration is delivered as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. |
| **Aligned with financial performance** | Total variable compensation is managed as a percentage of pre-bonus profit before tax, determined by the Committee and recommended to the Board. The total spend on compensation is managed as a percentage of operating revenue. This approach aligns compensation with financial performance. |
| **Designed to encourage retention** | Deferred variable compensation does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full. |

## Directors' remuneration policy

The Directors' remuneration policy is set out on pages 68 to 73. Shareholders will be asked to approve the policy at the 2014 Annual General Meeting (resolution four contained in the Notice of Meeting). This policy will take effect from the date it is approved and is expected to apply for three years.

### Remuneration policy for executive Directors

The table below sets out the key elements of the remuneration policy for executive Directors. The key elements of the remuneration policy for non-executive Directors are set out on page 72.

| Component | Operation | Further information |
|---|---|---|
| **Base salary**<br>To reflect the executive Directors' responsibilities and level of expertise and experience. | Base salary is paid monthly in cash via payroll. We aim to pay base salaries comparable to other large international asset management firms, and also consider salaries at other listed financial services firms and FTSE-100 companies. There is no prescribed maximum base salary, subject to the compensation to revenue ratio used to manage the Group's expenditure on total remuneration. | Executive Directors' base salaries are reviewed annually but adjusted infrequently. Any salary increase will not normally exceed the average annualised increase across the wider workforce. Larger increases may be awarded where Directors' salaries have fallen significantly below market. Executive Directors' salaries were increased with effect from 1 March 2014, having last been increased in 2007. |
| **Benefits**<br>To enable the executive Directors to undertake their role by ensuring their wellbeing and security. | Executive Directors receive a cash allowance to fund their benefit elections under the UK flexible benefits plan, on the same basis as other UK employees. Benefits available include private healthcare; life assurance; accidental death, injury or sickness insurances; and the **Share Incentive Plan (SIP)**, outlined on page 81. The cash allowance for benefits will not exceed 10 per cent. of salary. | Additional benefits may be provided if required, for example to support international relocation.<br><br>In addition to any standard benefits, Massimo Tosato also benefits from additional permanent total disability and life assurance cover and international private health care, at a current total annual cost of £73,000. |
| **Pension**<br>To enable provision for personal and dependant retirement benefits. | Executive Directors may participate in the UK pension arrangements, or receive cash in lieu of pension, on the same basis as other employees. Base salary up to a maximum of £250,000 is the only pensionable element of remuneration. The Group's contributions are currently 16 per cent. of pensionable salary, with a match of employee contributions up to a further two per cent. of salary. | Michael Dobson receives an annual fixed cash allowance of £46,000 in lieu of pension. |
| **Annual bonus award**<br>To drive the achievement of business priorities for the financial year and to attract, motivate, retain and reward executive Directors over the medium term, while aligning their interests with those of shareholders and clients. | Executive Directors are eligible to receive an annual bonus award. Awards in respect of each financial year are discretionary and non-pensionable. The Group's total spend on compensation is managed via the compensation to operating revenue target and the profit share ratio referred to on page 66. Individual awards are not capped. The level of each individual's award is based on Group, business area, team and individual performance. Over the last five years, the proportion of the total spend on annual bonuses that was allocated to the executive Directors has not exceeded six per cent.<br><br>Of any annual bonus for executive Directors, 50 per cent. is deferred into awards under the **Equity Compensation Plan (ECP)**, which are released after three years. The level of ECP award is reduced if a Long Term Incentive Plan award was granted during the year, as outlined below. The ECP is explained in more detail on page 69. | In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee takes account of a number of financial and non-financial factors intended to give a broad assessment of performance, including the trend in profit for the year; investment performance; net new business; the management of risks facing the Group; talent retention and succession planning; cost control; the Company's reputation; business performance within each individual's area of responsibility; and the Schroders share price performance. In addition, performance against the annual objectives of each Director is taken into account. Targeted performance is in line with the Group's strategic goals and the budget for the year. The Committee determines annual bonus awards based on an assessment of the overall business and individual performance and does not attach a separate weighting to each factor. |
| **Long Term Incentive Plan**<br>To incentivise long-term performance and focus on long-term retention and strategic priorities, while maximising alignment with shareholder interests. | Executive Directors are eligible to participate in the **Long Term Incentive Plan (LTIP)**, see page 69. LTIP awards can be up to four times salary for any individual for any year and have a four-year performance period. Where a LTIP award has been made during the year, the level of ECP award in respect of the year is reduced by 25 per cent. of the grant value of the LTIP award. | Executive Directors typically receive an award under the LTIP in March each year. The Committee sets performance targets for each award. As for previous awards, performance targets for awards to be made in 2014 relate to:<br>– Earnings per share (EPS); and<br>– Net new business (NNB). |

## Equity Compensation Plan (ECP)

The ECP is the Group's main deferral arrangement for variable remuneration.

ECP awards relate to prior performance and are not therefore subject to any further performance conditions. However, in order to provide an incentive to stay at Schroders, ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the third anniversary of grant in order to vest in full.

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

| Completed years of service from date of award | Less than 1 | 1 or more and less than 2 | 2 or more and less than 3 |
|---|---|---|---|
| Percentage of award forfeited | 100% | 66.7% | 33.3% |

A participant who leaves the Group may be entitled to retain more of their awards in certain circumstances, such as death, ill health or injury, or in other circumstances at the discretion of the Committee.

Deferrals up to £50,000 are generally delivered as ECP Share awards, which are conditional rights to acquire shares in the Company at nil cost. At the Company's discretion, ECP Share awards may be settled in cash. Additional shares equivalent to the dividends and associated tax credits accrue until the award is exercised. Any deferral in excess of £50,000 is generally delivered equally between ECP Share awards and ECP Fund awards, subject to a minimum Fund award of £10,000. An ECP Fund award is a conditional right to receive a cash sum based on the value of a notional investment in a range of Schroders' investment products.

The general application of the ECP may be subject to variation in some locations to reflect local restrictions, regulation and practice. ECP awards may also be used to buy out the deferred awards of senior hires. Awards can be adjusted to take account of legal, tax, and regulatory changes, a change in the Group's capital or following change of control, or in other circumstances that the Committee considers appropriate.

## Long Term Incentive Plan (LTIP)

LTIP awards are conditional rights to acquire shares in the Company at nil cost. The awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the awards may be exercised. At the end of the four-year performance period, the Committee will determine the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised. LTIP awards may then be exercised within a 12-month period. At the Company's discretion, LTIP awards may be settled in cash.

A participant who leaves the Group may still receive a proportion of their awards in certain circumstances, such as death, ill health or injury, or in other circumstances at the discretion of the Committee. In these circumstances, the award vests at the end of the performance period in the normal way, subject to meeting the performance conditions, with the proportion that vests pro-rated for the proportion of the performance period worked. Vesting may be accelerated if the participant dies, with the proportion that vests determined by estimating the extent to which the performance conditions will be met.

The Committee determines the performance conditions and uses its judgement to set challenging criteria that are consistent with the Group's business strategy. Earnings per share was chosen as a measure of profitability and is measured against a defined composite index which the Committee believes to be a reasonable proxy for the market movement of Schroders' assets under management. As a result, earnings increases or decreases purely as a result of movements in financial markets are excluded from the measurement of performance. Net new business, being gross sales less client redemptions, was chosen as a measure of the Group's organic growth.

**Earnings per share (EPS):** (50 per cent. of award)
If the growth in adjusted EPS in the fourth year compared with adjusted EPS in the year prior to grant exceeds the composite index by 20 per cent., then 12.5 per cent. of the award vests. If the comparative growth is 40 per cent. or more, then 50 per cent. of the award vests. Comparative growth of between 20 per cent. and 40 per cent. results in an award vesting on a straight-line basis between 12.5 per cent. and 50 per cent. Comparative growth of less than 20 per cent. is not rewarded. The composite index is 60 per cent. equities, measured by the Morgan Stanley Capital International All Country Index, and 40 per cent. fixed income, measured by the Barclays Capital Global Aggregate Index. Targets were set at 20 per cent. to 40 per cent. as a range of outperformance of the composite index which is significant yet realistically achievable.

**Net new business (NNB):** (50 per cent. of award)
If, over the four-year performance period, cumulative NNB is £15 billion, then 12.5 per cent. of the award vests. If NNB is £25 billion or more, then 50 per cent. of the award vests. NNB between £15 billion and £25 billion results in an award vesting on a straight-line basis between 12.5 per cent. and 50 per cent. NNB of less than £15 billion in the four-year period is not rewarded. Targets were set by reference to historic actual performance, aiming to provide targets that are stretching but not unrealistic.

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

## Directors' remuneration policy

### Clawback and malus terms

Deferred awards made under the ECP since 2011 and LTIP awards made at any time may be reduced or lapsed in the event of a material misstatement of the Group's financial results or individual misconduct, known as 'malus terms'. Amounts that have been paid or released from awards made since October 2013 may be recovered for a period of 12 months from the date of payment, under clawback terms, in the event of individual misconduct.

### Considerations when setting policy

In reviewing the Directors' remuneration policy, the Committee aims to ensure that policies and practices are consistent with the principles outlined on page 67, supporting effective risk management so as not to encourage excessive or inappropriate risk-taking. The Committee works to ensure that variable remuneration reflects performance and strikes the appropriate balance between managing current and future risk and reward. The Committee reviews Directors' remuneration in the context of remuneration across the Group, including financial performance, the annual total compensation to operating revenue ratio, the annual profit share ratio and the allocation of variable compensation between employees.

As far as possible, the policy is consistent with that applied for other employees, including discretionary bonus, benefits and pensions arrangements. The basis for determining deferral of annual bonus awards under the ECP may differ. With effect from 2014, normally only the executive Directors will be considered for awards under the LTIP but other employees are eligible to be considered for awards under the Equity Incentive Plan, described on page 81. The Committee does not set fixed ratios for Directors' pay relative to other employees as it believes this would restrict flexibility in aligning reward and performance appropriately. Employees are not consulted on the Directors' remuneration policy but are consulted on other relevant issues as outlined in the Corporate responsibility section. Feedback received from shareholders on Directors' remuneration is discussed by the Committee and taken into account.

The Group's remuneration policies and practices take account of regulations, corporate governance standards, best practice and guidance issued by regulators and representative shareholder bodies. Reward policies comply with the relevant provisions of the Remuneration Codes of the UK PRA and FCA and the UK Corporate Governance Code. Any remuneration commitment made prior to an individual becoming a Director (or 27 June 2012, in accordance with legislation) and not in anticipation of their appointment to the Board may be honoured, even where it is not consistent with the policy in place at the time it is fulfilled.

### Remuneration policy illustrations

The table below shows the relative split of fixed elements of remuneration, annual bonus award and LTIP, in line with the current policy. As variable compensation is not capped at the individual level, we have used the five-year average, the five-year highest and five-year lowest remuneration as an indication of the executive Directors' earnings potential. Future remuneration will be determined based on profitability and performance, as described elsewhere in this report.

**Michael Dobson**
Chief Executive (£'000)

| | Fixed | Annual bonus award | LTIP | Total |
|---|---|---|---|---|
| Fixed | | | | 573 |
| 5-year lowest | 20% | 80% | | 2,867 |
| 5-year average | 10% | 83% | 7% | 5,689 |
| 5-year highest | 8% | 82% | 10% | 7,673 |

**Richard Keers**[1]
Chief Financial Officer (£'000)

| | Fixed | Annual bonus award | LTIP | Total |
|---|---|---|---|---|
| Fixed | | | | 426 |
| 5-year lowest | 32% | 68% | | 1,322 |
| 5-year average | 20% | 68% | 12% | 2,109 |
| 5-year highest | 16% | 66% | 18% | 2,749 |

**Philip Mallinckrodt**
Group Head of Wealth Management (£'000)

| | Fixed | Annual bonus award | LTIP | Total |
|---|---|---|---|---|
| Fixed | | | | 433 |
| 5-year lowest | 48% | 52% | | 911 |
| 5-year average | 27% | 58% | 15% | 1,631 |
| 5-year highest | 17% | 64% | 19% | 2,608 |

**Massimo Tosato**
Executive Vice-Chairman and Global Head of Distribution (£'000)

| | Fixed | Annual bonus award | LTIP | Total |
|---|---|---|---|---|
| Fixed | | | | 513 |
| 5-year lowest | 23% | 77% | | 2,237 |
| 5-year average | 14% | 79% | 7% | 3,691 |
| 5-year highest | 11% | 78% | 11% | 4,610 |

Fixed  Annual bonus award  LTIP

[1] Richard Keers was appointed on 5 May 2013. The five-year average, five-year highest and five-year lowest figures have been calculated based on his remuneration in 2013 and the former Chief Financial Officer's remuneration for 2009 to 2012.

The following assumptions have been made in developing these scenarios:

**Fixed**

This consists of base salary, benefits and pension. Salary is the salary effective from 1 March 2014. The value of benefits and pension is the anticipated annualised amounts from 1 March 2014.

| Name | Base salary £'000 | Benefits £'000 | Pension £'000 | Total fixed £'000 |
|---|---|---|---|---|
| Michael Dobson | 500 | 27 | 46 | 573 |
| Richard Keers | 375 | 6 | 45 | 426 |
| Philip Mallinckrodt | 375 | 18 | 40 | 433 |
| Massimo Tosato | 375 | 93 | 45 | 513 |

**Five-year lowest**

This is based on the lowest actual total remuneration received over the five years ended 31 December 2013 and is calculated as the total of:
- Fixed remuneration: as above;
- Annual bonus award: being the lowest over the last five-years of the sum of actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above; and
- LTIP: assuming no vesting.

**Five-year average**

This is based on an annual average actual total remuneration over the same five years and is calculated as the total of:
- Fixed remuneration: as above;
- Annual bonus award: being the rolling five-year average of the sum of actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above; and
- LTIP: being the face value of award, assuming 50 per cent. vesting.

**Five-year highest**

This is based on the highest actual total remuneration received over the same five years and is calculated as the total of:
- Fixed remuneration: as above;
- Annual bonus award: being the highest over the last five years of the sum of actual bonus award and actual fixed remuneration each year, less the fixed remuneration value shown above; and
- LTIP: being the face value of award, assuming 100 per cent. vesting.



## Recruitment of new Directors

The Committee aims to pay executive Directors remuneration that is appropriate in level and structure to attract, motivate, retain and reward Directors of the quality required to run the Group successfully, while avoiding paying more than necessary. On recruitment, the level of fixed remuneration is likely to be set at the same level as applies to other Directors, provided this is justifiable by reference to the candidate's skills and experience, and taking into account remuneration in their most recent role, internal relativities and external market rates for roles with similar responsibilities. Benefits and pension entitlements will be provided on a similar basis as those available to other employees.

New executive Directors would be eligible to be considered for annual bonus and LTIP awards in the same way as existing Directors. The Group does not normally award guaranteed annual bonuses. If, by exception, the Committee believes this is necessary, it would be limited to the first 12 months of service and would not exceed the level of bonus the Committee considers commensurate with a full year's satisfactory performance in the role.

Where a candidate will forfeit remuneration as a result of leaving their current employer or joining Schroders, the Group may mitigate that loss by making one-off awards as part of the recruitment arrangements. The Committee will take reasonable steps to ensure that any such awards are no more generous in either amount or terms than the remuneration being forfeited. Any deferred remuneration awards will be subject to appropriate performance adjustment requirements.

If the Group hires a new executive Director internationally then relocation support may be offered, on a similar basis to other employees. This may include support such as temporary accommodation, assistance finding new accommodation, transportation of household goods, school search for children moving internationally with the Director, tax advice and assistance preparing tax returns and a one-off cash allowance of up to £5,000 net.

New non-executive Directors would receive fees and benefits in line with the policy for other non-executive Directors in place at that time.

# Remuneration report continued

## Directors' remuneration policy

### Remuneration policy for the Chairman and non-executive Directors

The non-executive Directors' remuneration policy has remained unchanged since 2011.

| Component | Operation | Further information |
|---|---|---|
| **Fees**<br>To reflect the skills, experience and time required to undertake the role. | Non-executive Directors' annual fees currently payable are as follows: (see table below) | Fees for the Board Chairman and other non-executive Directors are determined by the Board based on market information for comparable asset managers and other financial services groups and the constituent companies of the FTSE-100 Index. Non-executive Directors do not participate in decisions concerning their fees.<br><br>The fees were reviewed during the year but no changes were recommended to the level which was set in 2011. Fees are usually reviewed biennially. However, due to the time elapsed since the fees were last increased and the increasing complexity of the Group's business and operations and the resulting demands on Directors, the Board agreed that the fees would be reviewed again during 2014.<br><br>The total fees paid to the non-executive Directors currently cannot exceed £1.5 million, as approved by shareholders at the Annual General Meeting in 2012. |
| **Benefits**<br>To enable the Chairman and non-executive Directors to undertake their roles. | Non-executive Directors may receive private use of a Company chauffeur, car parking, meals, travel costs and, in the case of Bruno Schroder, private health care and medical benefits. Non-executive Directors' benefits are principally expenses incurred in carrying out the Group's business and reflect business needs. Although no maximum is imposed, expenses must be reasonable and appropriate. | Schroders does not pay retirement or post employment benefits to non-executive Directors. They do not participate in any of the Group's incentive arrangements. As a former executive, Bruno Schroder has been in receipt of a pension since April 2007 but ceased accruing any further entitlement in 1993. |

| | £ |
|---|---|
| Board Chairman | 300,000 |
| Board Member[1] | 70,000 |
| Senior Independent Director | 10,000 |
| Audit and Risk Committee Chairman[2] | 20,000 |
| Audit and Risk Committee Member | 15,000 |
| Nominations Committee Chairman | nil |
| Nominations Committee Member | nil |
| Remuneration Committee Chairman[2] | 15,000 |
| Remuneration Committee Member | 15,000 |

1 Bruno Schroder also receives an additional annual fee of £28,000 for services to the Group.
2 In addition to the Committee membership fee.

### Directors' service contracts, letters of appointment and termination arrangements

The Committee's general policy is that each executive Director will have a rolling contract of employment with mutual notice periods of six months, with the exception of Michael Dobson who is entitled to 12 months' notice from the Company. The Committee will consider the appropriate notice period on appointing any new executive Director. If necessary to secure a new hire, a notice period of up to 24 months may be offered, in which case this would reduce to 12 months or less after an initial period. When recruiting new executive Directors, the Committee's policy is that contracts will not contain any provision for compensation upon early termination, unless this is necessary in exceptional circumstances.

When an executive Director leaves the Group, the Committee will review the circumstances and apply the treatment that it believes is appropriate. Any payments will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any deferred remuneration plans.

Salary and benefits will continue to be paid through the notice period. In certain circumstances, the Committee also has the discretion to make a payment in lieu of notice, normally based on salary only. Departing executive Directors do not have a contractual entitlement to be awarded variable compensation, except in the case of contractual commitments that pre-date this policy. If a departing Director works during the notice period to achieve the Group's goals and supports an effective transition of responsibilities, the Committee may recommend to the Board that a discretionary payment be made to reflect his contribution during the proportion of the financial year worked.

The treatment of awards under the ECP, LTIP and other share plans will be in line with the relevant plan rules. In certain circumstances, those rules permit participants to retain some or all of their awards following the termination of their employment, for example, under the ECP, after the first, second and third anniversary of an award, or if the employee is leaving due to ill health or injury, or in other circumstances at the discretion of the Committee, taking into account the individual's performance and the reason for leaving.

The Company may pay reasonable fees for independent legal advice in relation to a Director's termination arrangements and nominal consideration for agreement to any contractual terms protecting the Company's rights following termination. Provided each of these does not exceed £10,000 they will not be included in the itemised disclosure in the Annual report on remuneration. Similarly, payments to former Directors that do not exceed £10,000 will not be disclosed in the Annual report on remuneration. The Committee may agree additional exit payments where such payments are made in good faith to discharge an existing legal obligation, or as damages for breach of such an obligation, or in settlement or compromise of any claim arising on the termination of a Director's office or employment.

Non-executive Directors are engaged under letters of appointment. They do not have service contracts. They generally have a mutual notice period of six months, with the exception of Bruno Schroder who does not have a notice period. There are no contractual provisions for non-executive Directors to receive compensation upon termination.

Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at the Annual General Meeting. All Directors are subject to annual re-election by shareholders.

The following table provides details of service contracts and letters of appointment for Directors who served during 2013:

| | Date of contract/ letter of appointment | Nature of contract | Notice period from Company | Notice period from Director | Next election/ re-election |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Michael Dobson[1] | 19 October 2001 | Rolling | 12 months | 6 months | 2014 |
| Richard Keers | 5 May 2013 | Rolling | 6 months | 6 months | 2014 |
| Philip Mallinckrodt | 4 February 2002 | Rolling | 6 months | 6 months | 2014 |
| Kevin Parry[2] | 17 December 2008 | Rolling | 6 months | 6 months | – |
| Massimo Tosato[3] | 27 July 2001 | Rolling | 6 months | 6 months | 2014 |
| **Non-executive Directors** | | | | | |
| Ashley Almanza | 2 August 2011 | Rolling | 6 months | 6 months | 2014 |
| Andrew Beeson | 3 May 2012 | Rolling | 6 months | 6 months | 2014 |
| Luc Bertrand | 20 February 2006 | Rolling | 6 months | 6 months | 2014 |
| Robin Buchanan | 3 March 2010 | Rolling | 6 months | 6 months | 2014 |
| Lord Howard | 20 November 2008 | Rolling | 6 months | 6 months | 2014 |
| Merlyn Lowther[4] | 4 March 2004 | Rolling | 6 months | 6 months | – |
| Nichola Pease | 1 September 2012 | Rolling | 6 months | 6 months | 2014 |
| Bruno Schroder | 24 December 2002 | Rolling | – | – | 2014 |

1 If Michael Dobson's employment is ended by the Company without cause he would be entitled to receive the equivalent of one year's remuneration, calculated as the annual average of the aggregate of base salary and discretionary annual bonus awards, cash and deferred, received in the preceding three years.

2 Kevin Parry stepped down as an executive Director of the Company on 5 May 2013. Details of arrangements related to the end of his employment are set out on page 78.

3 If Massimo Tosato's employment is ended by the Company without cause he would be entitled to 12 months' remuneration, calculated as base salary and discretionary annual bonus award, cash and deferred, for the previous year. Massimo Tosato's contract dated 1 August 2001, covering certain of his international duties, came to an end during 2013.

4 Merlyn Lowther stepped down as a non-executive Director of the Company on 2 May 2013.

## Annual report on remuneration

This section summarises the remuneration awarded to executive and non-executive Directors for services during the year ended 31 December 2013 and compares this to remuneration awarded for the prior year. It begins by setting out the context for these remuneration outcomes, including some of the key performance metrics that the Committee considered when setting the variable compensation pool and determining executive Directors' bonus awards. It also shows the returns to shareholders over the last five years and the total remuneration of the Chief Executive over the same period. Pages 74 to 80 constitute the annual report on Directors' remuneration, on which shareholders will have an advisory vote at the Annual General Meeting (resolution three contained in the Notice of Meeting). Where required, this information has been audited.

### Assessing pay and performance

The graph on the right compares the performance of Schroders plc shares with that of the FTSE-100. This index was chosen because the FTSE-100 is a widely recognised performance comparison for large UK-listed companies.

#### Group performance (audited)

Net revenues increased 24 per cent. in 2013 reflecting net new business won in 2012 and 2013, higher equity markets, an increase in performance fees and the benefit of the acquisitions completed during the year. The acquisition of STW and Cazenove Capital addressed two important goals outlined in the Group's 2012 Strategic review and the integration of both businesses is progressing well. The Group saw record profit before tax and exceptional items of £507.8 million, up 41 per cent. and earnings per share before exceptional items of 149.9 pence, up 43 per cent. The Board is recommending a 35 per cent. increase in the dividend for the year, recognising the record results in 2013, the Group's financial strength and long-term growth prospects. The ordinary share price increased 57 per cent. during the year.

Net new business remained strong at £7.9 billion (2012: £9.4 billion), across a broad range of asset classes and geographies. Assets under management ended the year at a record high of £262.9 billion (2012: £212.0 billion). and 68 per cent. (2012: 71 per cent.) of our assets under management outperformed their benchmark or peer group in the three years to 31 December 2013*.

The operating and financial performance of the Group is outlined in more detail in the Operating and Financial review sections.

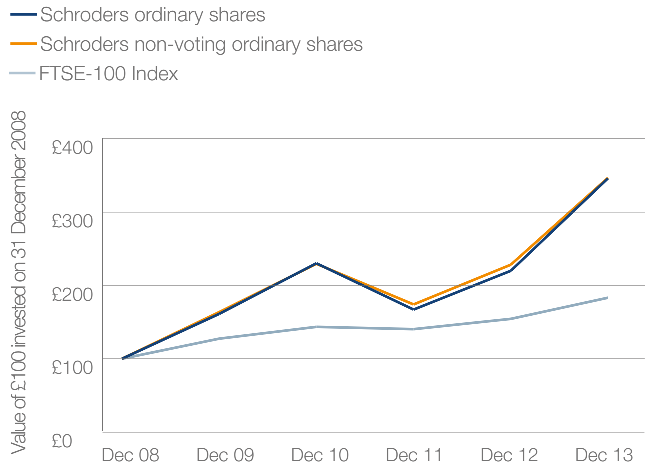
#### Overall compensation cost across the Group

The total spend on compensation is managed via a profit share ratio and compensation cost to net operating revenue ratio. This approach allows the Committee to ensure that the interests of employees are aligned with the Group's financial performance.

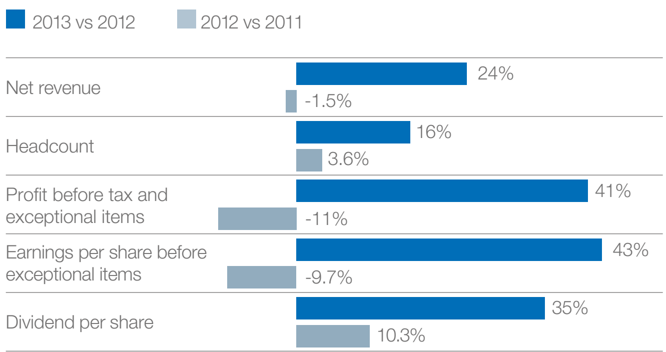
Taking account of the performance of the Group, the Committee considered the 2013 compensation review. The Committee also received a report from the Chief Executive on the underlying strength and sustainability of the business and reports on risk, legal and compliance matters from the heads of those areas.

The Committee determined the variable compensation pool for the year ended 31 December 2013, based on a bonus charge of 39 per cent. (2012: 42 per cent.) of pre-bonus operating profit and a total compensation to operating revenue ratio for the year of 46 per cent. (2012: 49 per cent.).

**Performance of Schroders plc shares against the FTSE-100 Index**




**Key metrics**




The Chief Executive allocates the overall pool between the divisions or functions headed by GMC members, taking into consideration the objectives, both financial and non-financial, that were set at the beginning of the year. Variable compensation awards for employees, other than those determined, approved or reviewed by the Committee, were recommended to the Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant area and the levels of reward for comparable roles in the market. The Committee was satisfied that the process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance. The operation of the deferred remuneration plans that utilise Schroders shares are non-dilutive to shareholders as shares are purchased in the market to satisfy awards.

* See Glossary for definition.

## Single total remuneration figure for each executive Director (audited)

The table that follows compares the total remuneration of each of the executive Directors for the year ended 31 December 2013 with their total remuneration the previous year.

| 2013 (£'000) | Salary | Benefits | Pension | Annual bonus award | Annual remuneration | LTIP vested[1] | Total remuneration |
|---|---|---|---|---|---|---|---|
| Michael Dobson | 400 | 26 | 46 | 6,400 | 6,872 | 1,542 | 8,414 |
| Richard Keers[2] | 198 | 4 | 26 | 1,350 | 1,578 | – | 1,578 |
| Philip Mallinckrodt | 300 | 18 | 40 | 1,750 | 2,108 | 562 | 2,670 |
| Kevin Parry[3] | 103 | 2 | 16 | 900 | 1,021 | 484 | 1,505 |
| Massimo Tosato | 300 | 93 | 117 | 3,600 | 4,110 | 578 | 4,688 |

1 Represents the vesting-date market value of shares awarded under the LTIP on 28 May 2010, since when the ordinary share price, and therefore the value of the LTIP, has increased by 93 per cent. These awards vested on 5 March 2014, based on performance against the performance conditions over the four financial years ended 31 December 2013.
2 Richard Keers was appointed on 5 May 2013.
3 Kevin Parry stepped down as an executive Director of the Company on 5 May 2013.

| 2012 (£'000) | Salary | Benefits | Pension | Annual bonus award | Annual remuneration | LTIP vested | Total remuneration |
|---|---|---|---|---|---|---|---|
| Michael Dobson | 400 | 24 | 46 | 4,400 | 4,870 | – | 4,870 |
| Richard Keers | – | – | – | – | – | – | – |
| Philip Mallinckrodt | 300 | 18 | 40 | 700 | 1,058 | – | 1,058 |
| Kevin Parry | 300 | 6 | 45 | 1,600 | 1,951 | – | 1,951 |
| Massimo Tosato | 300 | 93 | 117 | 2,750 | 3,260 | – | 3,260 |

### Methodology for determining the single total remuneration figure

Individual components of total remuneration include:

| | |
|---|---|
| **Salary** | Represents the value of salary earned and paid during the financial year. |
| **Benefits** | Includes one or more of: private use of company chauffeur, company car or cash in lieu of company car, car parking, meals, private taxis, life assurance, permanent total disability insurance, private healthcare and SIP matching contributions. |
| **Pensions** | Represents cash in lieu of pension for Michael Dobson. Represents contributions to defined contribution pension arrangements for Richard Keers, Philip Mallinckrodt, Kevin Parry and Massimo Tosato. |
| **Annual bonus award** | Represents the total value of annual bonus award for performance during the relevant financial year. The table on page 76 shows the breakdown of the bonus into cash paid through the payroll in February and deferred awards granted in March, following the relevant financial year end. The total ECP award is reduced by 25 per cent. of the grant value of the LTIP award made in March of the relevant financial year. |
| **LTIP vested** | Represents the vesting-date market value of shares awarded under the LTIP in 2010 that vested on 5 March 2014 based on performance against the performance conditions over the four financial years ended 31 December 2013. More information on the performance achieved and how the resulting vesting was determined is provided on page 76. This award was granted on 28 May 2010, after the LTIP was approved by shareholders at the Annual General Meeting. No awards were granted in previous years. |

## Annual report on remuneration

### Pay for performance – Annual bonus award (audited)

The table below sets out details of how the annual bonus for each executive Director was delivered. ECP awards require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. These values are reflected in the single total remuneration figure for each executive Director.

| 2013 | Cash bonus award £'000 | ECP awards £'000 Share awards | Fund awards | Total ECP award[1] | Total annual bonus award £'000 | Percentage of total remuneration % |
|---|---|---|---|---|---|---|
| Michael Dobson | 3,262 | 1,594 | 1,544 | 3,138 | 6,400 | 76 |
| Richard Keers[2] | 675 | 363 | 312 | 675 | 1,350 | 86 |
| Philip Mallinckrodt | 900 | 450 | 400 | 850 | 1,750 | 66 |
| Kevin Parry | 900 | – | – | – | 900 | 60 |
| Massimo Tosato | 1,825 | 913 | 862 | 1,775 | 3,600 | 77 |

1 The total ECP award is reduced by 25 per cent. of the grant value of the 2013 LTIP award.
2 Annual cash bonus includes £158,000 contributed into Richard Keers' pension following a prior bonus waiver election.

### Basis for determining annual bonus awards (audited)

In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee made an assessment of the overall performance of the business and of each individual. A number of financial and non-financial factors were taken into account, without attaching a separate weighting to each factor, including:

- The trend in profit for the year;
- Investment performance;
- Net new business;
- The management of risks facing the Group;
- Talent retention and succession planning;
- Execution and integration of strategic acquisitions;
- Cost control;
- The Company's reputation;
- Business performance within each individual's responsibilities;
- Individual performance against annual objectives; and
- Schroders share price performance.

Targets and actual performance for investment performance and cost metric KPIs are outlined on pages 20 and 21. Targets for other metrics are not disclosed due to commercial sensitivity and the risk of providing information to competitors, many of which are not subject to the same disclosure requirements. Based on this assessment of performance, the Committee used its discretion to determine annual bonus awards, taking into account the recommendation of the Chief Executive in respect of the other executive Directors.

### Determining vesting of prior LTIP awards (audited)

The LTIP awards granted on 28 May 2010, covering the 2010 to 2013 performance period, vested on 5 March 2014. The criteria for determining these are set out below. The value that vested is reflected in the single total remuneration figure for each executive Director.

| Performance measure | Max % of award | Performance achieved | Vesting % of award |
|---|---|---|---|
| Earnings per share (EPS)<br>If the growth of adjusted EPS in the fourth year compared to the year prior to grant exceeds a defined composite index by:<br>– less than 20% no vesting<br>– equal to 20% 12.5% vests<br>– between 20-40% straight-line basis<br>– 40% or greater 50% vests | 50 | The four-year growth in the MSCI All Countries Index was 48.2% and the Barclays Capital Global Aggregate Index was 10.5%. Weighting them 60% and 40% respectively, the composite index was 33.1%. Four-year growth in adjusted EPS was 156.2%, which exceeds the composite index by 123.1%.<br>More information on the composite index can be found on page 69. | 50 |
| Net new business (NNB)<br>– less than £15 billion no vesting<br>– equal to £15 billion 12.5% vests<br>– between £15-25 billion straight-line basis<br>– £25 billion or greater 50% vests | 50 | The four-year cumulative NNB from 2010 to 2013 was £47.6 billion. | 50 |
| Total vested in relation to 2010-2013 performance | | | 100 |

### LTIP awards granted during 2013 (audited)

The following awards under the LTIP were granted to the executive Directors on 27 March 2013 as nil cost options.

| Individual | Basis of award granted | Face value at grant (£'000) | Vesting maximum as % of face value | % of face value that would vest at combined threshold | Share price at grant | End of performance period |
|---|---|---|---|---|---|---|
| Michael Dobson | 125% of salary | 500 | 100 | 25 | £21.30 | 31 December 2016 |
| Philip Mallinckrodt | 67% of salary | 200 | 100 | 25 | £17.26 | 31 December 2016 |
| Massimo Tosato | 67% of salary | 200 | 100 | 25 | £21.30 | 31 December 2016 |

All LTIP awards are made over ordinary shares, except for the awards made to Philip Mallinckrodt, which are made over non-voting ordinary shares. The share price used to determine the number of shares under each LTIP award is the mid-market closing share price on the last trading day prior to the date of grant and this is the price used to calculate the face value shown. The vesting of these awards is subject to the performance conditions set out on page 69. These awards do not appear in the single total remuneration figure as they are subject to performance conditions and will not vest until 2017.

### Total pension entitlements (audited)

The following table gives details of pensions provided to executive Directors for the year ended 31 December 2013. The figures in the contribution columns represent contributions paid into defined contribution pension arrangements during the year and exclude any contributions made by the Director. There has been no defined benefit accrual since 30 April 2011. Accrued defined benefit pensions are subject to actuarial reduction on early retirement and so there is no enhanced benefit entitlement in these circumstances.

| | **2013 Employer contributions £'000** | **2013 cash in lieu of pension £'000** | **Accrued defined benefit pension at 31 December 2013 £'000** | 2012 Employer contributions £'000 | 2012 cash in lieu of pension £'000 | Normal retirement age[1] |
|---|---|---|---|---|---|---|
| Michael Dobson[2] | – | 46 | 4 | – | 46 | 60 |
| Richard Keers | 26 | – | – | – | – | 60 |
| Philip Mallinckrodt | 40 | – | 73 | 40 | – | 60 |
| Kevin Parry | 16 | – | – | 45 | – | 60 |
| Massimo Tosato[3] | 117 | – | 47 | 117 | – | 60 |

1 Normal retirement age is the earliest age at which a Director can elect to draw their pension under the rules of the pension Scheme without the need to seek consent of the Company or pension Scheme trustees.
2 Michael Dobson began to draw his pension from the Scheme with effect from 13 May 2012. He has no further prospective pension benefits from the Group.
3 Following contributions made in 2013, no further payments have been or will be made under Massimo Tosato's historical arrangement for enhanced pension contributions.

## Chief Executive's total remuneration

The Chief Executive's single total remuneration figure over the past five years is shown below, as well as how variable pay plans have paid out each year. This compares to 246 per cent. returns to shareholders over the same period, which is shown in the graph on page 74.

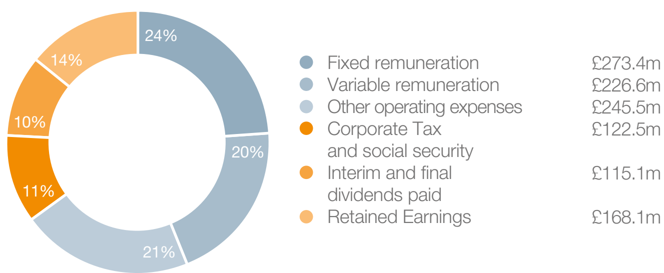
| CEO | Financial year | Single total remuneration figure £'000 | Annual bonus award (actual award as a % of five-year highest bonus)[1] | LTIP (vesting as a % of maximum opportunity)[2] |
|---|---|---|---|---|
| Michael Dobson | 2013 | 8,414 | 100% | 100% |
| | 2012 | 4,870 | 69% | n/a |
| | 2011 | 5,570 | 80% | n/a |
| | 2010 | 6,267 | 91% | n/a |
| | 2009 | 2,867 | 38% | n/a |

1 No maximum annual bonus opportunity was in place so the actual annual bonus award is shown relative to the highest actual award over the last five years.
2 Those years shown as n/a include no LTIP value as no LTIP award was due to vest that year. The LTIP was introduced in May 2010 and the first award vested on 5 March 2014 based on the four-year performance period ending on 31 December 2013.

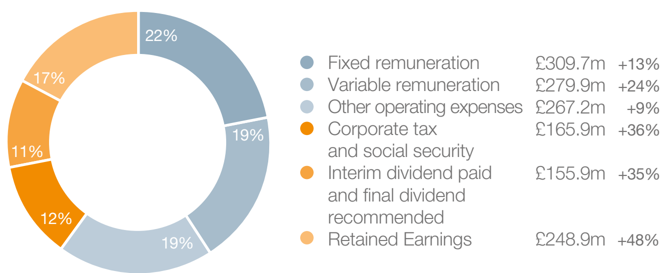
## Relative spend on pay

The charts below illustrate the relative spend on pay for 2013 compared to 2012. The values are taken from the financial statements and show how remuneration costs before exceptional items compare to shareholder distributions, corporate taxes paid and earnings retained.

**2012**




**2013**

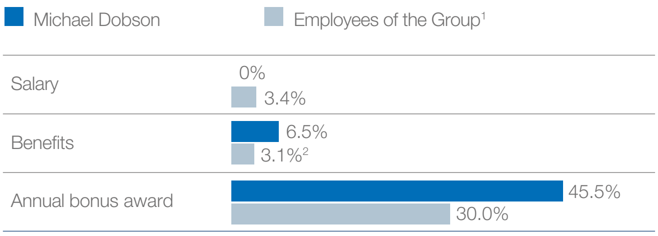


## Annual report on remuneration

### Comparison of percentage change in salary, benefits and annual bonus award

The chart on the right compares the percentage change from 2012 to 2013 in salary, benefits and annual bonus award for the Chief Executive with the average year-on-year percentage change in those values across employees of the Group taken as a whole. Across the Group, individual annual bonus awards for 2013 compared with 2012 varied from an increase in excess of 100 per cent. to a reduction of bonus to nil, reflecting our pay for performance philosophy.

### Comparison of percentage change in value from 2012 to 2013




[1] Other than where noted, employees of the Group are those employed on both 31 December 2012 and 31 December 2013, including Cazenove Capital employees.
[2] For the increase in benefits, employees of the Group includes the population employed by Schroders in the UK on both 31 December 2012 and 31 December 2013.

### Payments to former Directors (audited)

Kevin Parry stepped down from the Board and ceased to be an employee of Schroders on 5 May 2013. He received no payments for loss of office. He continued to perform his duties through to the end of his employment, working towards a smooth transition of responsibilities to Richard Keers. In recognition of this, the Committee awarded him a bonus of £900,000, which is disclosed in the single total remuneration figure table on page 75. The Committee also exercised its discretion under the rules of the ECP and LTIP to allow him to retain his unvested awards. The LTIP is pro-rated for the proportion of the performance period that he worked. The value vesting to him from the LTIP award is shown in the single total remuneration figure table.

### Non-executive Directors' remuneration (audited)

The table that follows compares the total remuneration of each of the non-executive Directors for the year ended 31 December 2013 with their total remuneration the previous year.

| | **Salary and fees £'000** | **Benefits-in-kind £'000** | **2013 Total £'000** | Salary and fees £'000 | Benefits-in-kind £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| Andrew Beeson | 300 | – | 300 | 242 | – | 242 |
| Ashley Almanza | 113 | – | 113 | 95 | – | 95 |
| Luc Bertrand | 95 | 3 | 98 | 92 | 5 | 97 |
| Robin Buchanan | 85 | – | 85 | 85 | – | 85 |
| Lord Howard | 115 | – | 115 | 105 | – | 105 |
| Merlyn Lowther[1] | 36 | 1 | 37 | 105 | 1 | 106 |
| Nichola Pease | 80 | – | 80 | 23 | – | 23 |
| Bruno Schroder | 98 | 2 | 100 | 98 | 2 | 100 |

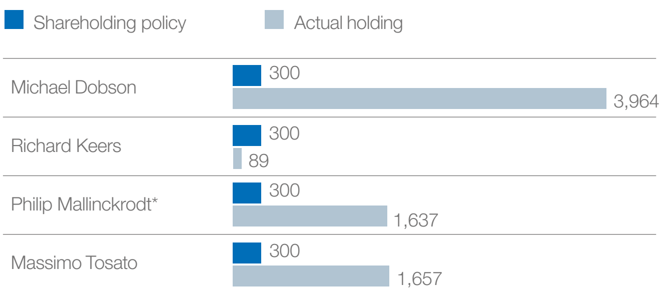
[1] Merlyn Lowther stepped down from the Board on 2 May 2013.

### Personal shareholding policy (audited)

In order to align the interests of senior employees with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300 per cent. of annual base salary. For these purposes, rights to shares include the estimated after-tax value of ECP Share awards but do not include any unvested rights to shares awarded under the LTIP.

With the exception of Richard Keers (who did not join the Board until 5 May 2013), each executive Director had achieved this target as at 31 December 2013 based upon the mid-market closing share price on that date. At the point that Kevin Parry ceased to be a Director he met the target shareholding requirement.

### Shareholding at 31 December 2013 as a percentage of salary




* Philip Mallinckrodt's shareholding above is his holding derived from employment. It does not include his other share interests. See page 79.

## Executive Directors' rights to shares and Fund awards under deferred remuneration plans (audited)

The executive Directors had the following rights to ordinary and non-voting ordinary shares under the Group's deferred remuneration plans as at 31 December 2013. Remuneration plan interests are in the form of nil-cost options.

| | | Number of shares at year-end | | | | |
|---|---|---|---|---|---|---|
| | Type | Unvested (performance conditions)[1] | Unvested (no performance conditions) | Vested | Total | Number of shares under options that were exercised in the year[2] |
| Michael Dobson | Ordinary | 160,919 | 251,670 | 53,724 | 466,313 | – |
| Richard Keers | Ordinary | – | 19,267 | – | 19,267 | – |
| Philip Mallinckrodt | Non-voting ordinary | 77,626 | 68,164 | 209,004 | 354,794 | 54,147 |
| Kevin Parry | Ordinary | 33,075 | – | – | 33,075 | 83,013 |
| Massimo Tosato[3] | Ordinary | 61,731 | 169,656 | 132,644 | 364,031 | 110,362 |

1 Includes LTIP awards granted on 28 May 2010, which were unvested at 31 December 2013. These awards vested on 5 March 2014.
2 During the year, the aggregate gain on share options for all directors was £2,810,000. This related to nil-cost options, with the exception of an option over 30,000 non-voting ordinary shares granted to Philip Mallinckrodt under the 2000 Share Option Plan with an exercise price of £3.98, exercised when the share price was £14.02, yielding a gain of £301,200.
3 Massimo Tosato holds unvested nil-cost options over 29,598 shares and vested nil-cost options over 31,119 shares which will be settled in cash.

The executive Directors had the following rights to ECP Fund awards at 31 December 2013, based on the award values at grant:

| | Awards at year-end | | | |
|---|---|---|---|---|
| | Unvested (no performance conditions) £'000 | Vested awards £'000 | Total £'000 | Awards exercised in the year £'000 |
| Michael Dobson | 3,619 | 1,225 | 4,844 | 994 |
| Richard Keers | – | – | – | – |
| Philip Mallinckrodt | 594 | 300 | 894 | 132 |
| Kevin Parry | – | – | – | 1,081 |
| Massimo Tosato | 2,231 | – | 2,231 | 425 |

## Directors' share interests (audited)

At 31 December 2013 and the date of this report, the Directors and their connected persons had the following interests in shares in the Company:

| | Number of shares | | | |
|---|---|---|---|---|
| | 31 December 2013[1] | | 5 March 2014 | |
| | Ordinary shares | Non-voting ordinary shares | Ordinary shares | Non-voting ordinary shares |
| **Executive Directors** | | | | |
| Michael Dobson | 302,666 | 187,821 | 302,680 | 187,821 |
| Richard Keers | 42 | – | 53 | – |
| Philip Mallinckrodt[2] | 79,461,706 | 5,925,900 | 79,461,706 | 5,925,900 |
| Kevin Parry[3] | 5,993 | – | n/a | n/a |
| Massimo Tosato | 2,536 | – | 2,550 | – |
| **Non-executive Directors** | | | | |
| Andrew Beeson | – | 15,000 | – | 15,000 |
| Ashley Almanza | – | – | – | – |
| Luc Bertrand | – | – | – | – |
| Robin Buchanan | – | 6,167 | – | 6,419 |
| Lord Howard | – | 5,000 | – | 5,000 |
| Merlyn Lowther[4] | 1,000 | – | n/a | n/a |
| Nichola Pease | – | – | – | – |
| Bruno Schroder[2] | 13,881,416 | 1,482,417 | 13,881,416 | 1,482,417 |

1 Or at the date of leaving the Group, if earlier.
2 The interests of Philip Mallinckrodt and Bruno Schroder set out above include beneficial interests of those Directors (and of their connected persons) in their respective capacities as members of a class of potential discretionary beneficiaries under certain settlements made by members of the Schroder family.
3 Kevin Parry stepped down from the Board on 5 May 2013.
4 Merlyn Lowther stepped down from the Board on 2 May 2013.

## Annual Report on remuneration

### Compliance and risk management in remuneration
To ensure the Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Committee serves on the Audit and Risk Committee.

The Group's remuneration policies and practices take account of applicable law and regulations, corporate governance standards, best practice and guidance issued by regulators and by representative shareholder bodies.

The Committee reviewed the PRA and FCA's Remuneration Code, along with regulatory guidance on remuneration deferrals, clawbacks, recruitment and retention awards and restrictions to prevent employees hedging deferred remuneration outcomes, and is satisfied that the Group's approach is in line with regulatory requirements. Schroders is a Level 3 firm under the Remuneration Code's 'proportionality' regime. The Group's deferred remuneration plans provide that, at the discretion of the Committee, deferred awards may be reduced or lapsed in the event of a material misstatement of the Group's financial results or misconduct by an individual. The Committee agreed amendments to these plans to strengthen these terms and add clawback terms, which allow the Group to recover amounts that have been released in the event of individual misconduct. Employees are not allowed to enter into hedging transactions that undermine the intended performance-alignment of deferred awards.

The Committee also reviewed the Group's regulatory disclosures in the context of the FCA's and PRA's requirements. The required remuneration disclosures were incorporated into the Group's Pillar 3 disclosures and are available at www.schroders.com/ir. Individual pay and bonus decisions for employees deemed to be Code Staff under the Remuneration Code were also considered.

### Implementation of remuneration policy for 2014
The Committee does not anticipate making changes to the way in which the remuneration policy is implemented during 2014. Executive Directors' bonuses will be based on broadly the same performance metrics as were considered for 2013. LTIP performance targets for awards to be made in 2014 are unchanged.

Executive Directors' salaries were last increased in 2007. The Committee reviewed executive Directors' salaries during January 2014, taking into account the level of salary paid in respect of comparable roles in other large asset managers, listed asset managers and banks and the constituent companies of the FTSE-100 Index, as well as internal relativities. The Committee increased the Chief Executive's salary to £500,000 and the salaries of the other executive Directors to £375,000, with effect from 1 March 2014. This equates to an annualised increase of 3.4 per cent. since the last time executive Directors' salaries were increased, compared to an average annualised increase for other employees who were employed by Schroders over the same period of 4.9 per cent.

Non-executive Directors' fees will be reviewed during 2014.

### External advisers
The Committee appointed or received advice from the advisers shown in the table that follows. Advisers were selected on recommendation from the Global Head of Human Resources and the Head of Compensation and Benefits.

| | Appointed by | Appointed | Services provided to the Committee | Other services provided to the Group | Fees paid for services to the Committee during 2013 (£'000) |
|---|---|---|---|---|---|
| McLagan International Inc (McLagan) | the Committee | 15 November 2013 | Information on market conditions and competitive rates of pay | Information on market conditions and competitive rates of pay | 15 |
| PwC | the Company | 23 April 2013 | Information on regulatory developments and market conditions | PwC is the Group's external auditor – see below | nil |

The Committee is satisfied that the advice received from McLagan was independent as it was factual and not judgemental. McLagan is part of Aon Hewitt, which also provides advice and services to the Company in relation to pension benefit valuations and pension actuarial advice. McLagan's fees were charged on the basis of a fixed fee for the preparation of a report setting out the information requested. Any non-audit services provided by PwC are subject to review in accordance with arrangements for the provision of such services as described in the report of the Audit and Risk Committee. PwC's fees were charged to the Company on the basis of time spent and hourly rates.

### Shareholder voting at the 2013 AGM
At the Annual General Meeting on 2 May 2013 a resolution was put to shareholders to approve the Directors' Remuneration report that was published in the 2012 Annual Report and Accounts. The voting results were as follows:

| | | |
|---|---|---|
| For | 174,940,701 | 98.01% |
| Against | 3,547,592 | 1.99% |
| Withheld | 1,828,824 | – |

### Remuneration policy for other senior executives

Senior executives below Board level receive the same components of remuneration as executive Directors, including:

- Base salary;
- Benefits, including the opportunity to participate in the Share Incentive Plan (SIP) for those based in the UK;
- Pension; and
- Pay for performance, including annual bonus awards.

These are provided on the same basis as to executive Directors, except the basis for determining deferral of annual bonus awards under the ECP may differ. Some senior employees participate in the **Equity Incentive Plan (EIP)**, under which a limited number of awards are made each year. EIP awards are not subject to performance conditions. The EIP is explained in more detail on the right.

Approved and signed on behalf of the Board.

**Lord Howard of Penrith**
Chairman of the Remuneration Committee
5 March 2014

### Share Incentive Plan (SIP)

The SIP, which provides potential UK tax benefits, is part of the flexible benefits programme to broaden the number of employee shareholders and increase their participation as shareholders.

Under the terms of the SIP, participating employees use their own funds to acquire shares in the Company (Partnership Shares) and in return receive awards of shares (Matching Shares) from the Company of up to £50 per month based on the market value of the shares. To qualify for maximum tax benefits, these shares must be left in the SIP for five years. Performance conditions do not apply. Participants are free to withdraw their Partnership Shares at any time but forfeit the corresponding Matching Shares if they do so or cease to be in employment within one year of acquiring the Partnership Shares, except for a cessation in circumstances set out in the rules of the SIP, such as death or disability.

72 per cent. of UK employees participated in the plan as at 31 December 2013 (2012: 71 per cent.).

### Equity Incentive Plan (EIP)

The EIP is an additional deferred remuneration plan, used to recognise sustainable performance and potential, and to increase the alignment of employee interests with the interests of shareholders and clients. EIP awards do not give rise to any immediate entitlement and require the participant to be employed continuously by the Group until the fifth anniversary of grant. Malus and clawback terms apply, in a similar way to awards under the ECP. Executive Directors are not eligible to receive EIP awards. If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full. For awards made prior to October 2013, if a participant resigns before the fifth anniversary of grant, awards are normally subject to forfeiture as follows:

| Completed years of service from date of award | Less than 3 | 3 or more and less than 4 | 4 or more and less than 5 |
|---|---|---|---|
| Percentage of award forfeited | 100% | 66.7% | 33.3% |

A participant who leaves the Group may be entitled to retain more of their awards in certain circumstances, such as death, ill health or injury, or in other circumstances at the discretion of the Committee.

EIP Share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to the dividends and associated tax credits due on the shares under the EIP award accrue until the award is exercised.

EIP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders investment products.

# Directors' report

## Directors' report

The information contained in the sections of this Annual Report and Accounts identified below forms part of this Directors' report:

- Strategic report (which includes the separate shaded sections contained within the Financial report identified as the Financial review);
- Board of Directors;
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report; and
- Statement of Directors' responsibilities.

## Dividends

The Directors are recommending a final dividend of 42.0 pence per share which, if approved by shareholders at the Annual General Meeting, will be paid on 7 May 2014 to shareholders on the register of members at the close of business on 28 March 2014. Dividends payable in respect of the year, subject to this approval, along with prior year payments, are set out below.

The Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust have waived their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2013.

## Directors' share interests

The interests in the securities of the Company of the Directors who were on the Board in 2013 can be found in the Remuneration report.

## Corporate responsibility

Details of the Company's employment practices and $CO_2e$ emissions can be found in the Corporate responsibility section of the Strategic report.

## Indemnities and Insurance

At the 2007 Annual General Meeting, shareholders authorised the Company to provide indemnities to, and to fund defence costs for, Directors in certain circumstances. All Directors at the time shareholder approval was received were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third-party liabilities which they may incur as a result of their service on the Board.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

| Ordinary shares and non-voting ordinary shares | 2013 pence | 2013 £m | 2012 pence | 2012 £m | 2011 pence | 2011 £m | 2010 pence | 2010 £m | 2009 pence | 2009 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Interim | 16.0 | 43.1 | 13.0 | 34.7 | 13.0 | 34.7 | 11.0 | 29.8 | 10.0 | 27.5 |
| Interim | – | – | – | – | – | – | – | – | 21.0 | 58.2 |
| Final | 42.0[1] | 112.8 | 30.0 | 80.4 | 26.0 | 69.4 | 26.0 | 70.7 | – | – |
| Total | 58.0 | 155.9 | 43.0 | 115.1 | 39.0 | 104.1 | 37.0 | 100.5 | 31.0 | 85.7 |

* Subject to approval by shareholders at the 2014 Annual General Meeting.

## Change of control

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's employee share schemes may cause awards granted to employees under such schemes to vest on a change of control.

## Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2012: nil) and there is no intention to make or incur any in the current year.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In addition, the financial statements include information on the Group's approach to managing its capital and financial risk; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well-placed to manage its business risks in the context of the current economic outlook.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the Annual Report and Accounts.

By Order of the Board

**Graham Staples**
Company Secretary
5 March 2014

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FCA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' statement

Each of the Directors, whose name and functions are listed in the Board of Directors section of this Annual Report and Accounts, confirms that, to the best of each person's knowledge and belief:
- The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group;
- The Directors' report contained in this Annual Report and Accounts which comprises the sections described on page 82, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face;
- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that ought to have been taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In addition, each of the Directors considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the audited financial information on our website at www.schroders.com.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Forward-looking statements

This Annual Report and Accounts 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 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. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'aims', 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 Annual Report and Accounts. 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 Annual Report and Accounts should be construed as a profit forecast.

# Developing

## and retaining a deep pool of talent

This is key to organisational stability and long-term success. The Group has more than 3,500 employees across 27 countries.

95% employee retention

# Financial review

"We have seen record results in 2013, which demonstrate clearly the benefits of our long-term focus, organic growth strategy, and successful integration of the acquisitions completed during the year."

I was delighted to join the Board in May 2013 and this is my first Annual Report as Chief Financial Officer. It is a pleasure to be able to report record results for the firm, which demonstrate clearly the benefits of our long-term focus, organic growth strategy and successful integration of the acquisitions completed this year, particularly STW and Cazenove Capital.

As a result of these acquisitions, we have included exceptional items this year to help the reader gain a better understanding of the Group's financial performance. In line with the recent report from the UK's Financial Reporting Review Panel (FRRP) of the Financial Report Council (FRC), we have looked to ensure that these are presented consistently and disclosed clearly.

The graphs and commentary opposite outline the key changes in our financial performance year-on-year, with record levels of net revenue, profit before tax and assets under management in 2013.

Schroders has made a number of improvements to its financial reporting in recent years in support of the FRC's work to 'de-clutter' annual reports. This includes aligning the commentary with the primary financial statements and segmental results and the introduction of a 'plain English' description of the purpose of each note. This work has continued in 2013 where we have consolidated and simplified further the 'plain English' explanation of both the accounting policies and purpose of each note to the accounts.

As usual, our commentary looks to explain how the financial results relate to our overall strategy, business model, key performance indicators and main business developments during the year.

**Richard Keers**
Chief Financial Officer
5 March 2014

## Understanding the Financial review

These financial statements exclude disclosures that are immaterial and judged to be unnecessary to understand our results and financial position.

We welcome feedback on the content and presentation of this report, which can be emailed to investorrelations@schroders.com.

**Financial review**
For increased clarity, the Financial review, where practical, is positioned to provide a commentary next to the financial statements. It begins with an overview of the primary financial statements and then provides more granular detail relevant to the segmental results.

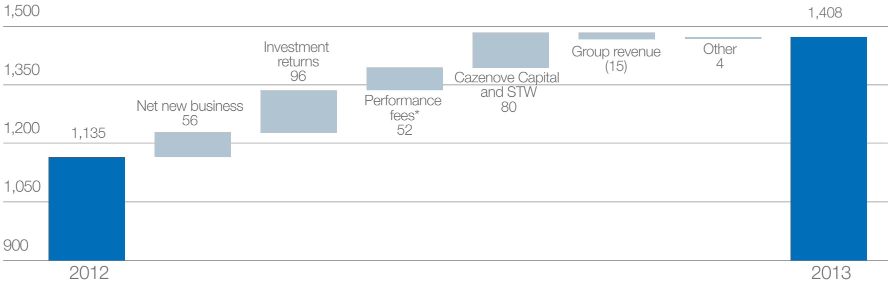
The separate shaded sections included on the following pages comprise the Financial review. It is unaudited and forms part of the overall Strategic report. It does not form part of the financial statements of the Group.

The blue print at the beginning of each note provides a 'plain English' description of the purpose of the note. It also incorporates accountancy requirements that serve as the accounting policy.

Estimates and judgements are separately shown and identified with the background shaded in grey.

## Movement in net revenue

£m

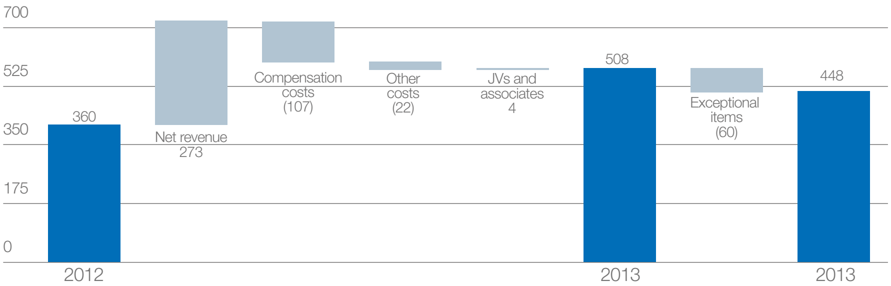



* £30 million of the performance fee movement relates to Cazenove Capital.

Net revenue increased by 24 per cent. driven by higher assets under management (AUM), including acquisitions, investment returns and an increase in performance fees where investment returns for clients have exceeded agreed benchmarks.

## Movement in profit before tax

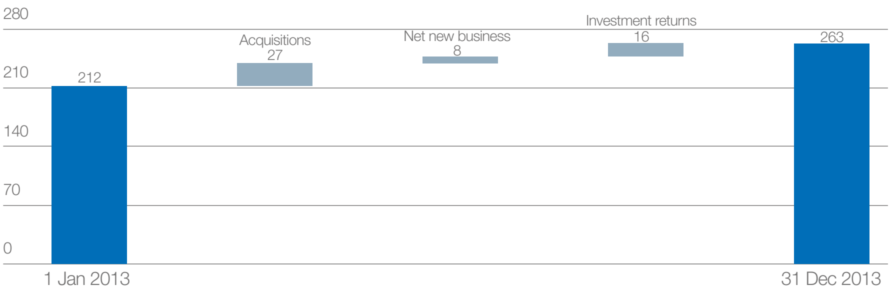
£m




2013 saw record profit before tax and exceptional items of £507.8 million and profit before tax and after exceptional items of £447.5 million.

## Movement in assets under management

£m




Record AUM of £262.9 billion reflected the acquisitions completed during the year, continued net new business from our organic growth strategy and good investment returns for clients as equity markets rose.

## Index

# Financial review continued

## Financial performance

The Group's income and expenses are presented in the consolidated income statement and the consolidated statement of comprehensive income. Exceptional items of income and expenditure are presented separately. This provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

More detailed commentary on the performance of the Group's three segments can be found on pages 96 and 97.

| 2013 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Net revenue £m | 323.0 | 322.1 | 366.0 | 396.5 | 1,407.6 |
| Profit before tax £m* | 115.0 | 113.0 | 121.6 | 158.2 | 507.8 |
| Net new business £bn | 5.6 | (1.1) | 1.0 | 2.4 | 7.9 |
| AUM £bn | 236.5 | 235.7 | 256.7 | 262.9 | n/a |

| 2012 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Net revenue £m | 282.7 | 261.3 | 276.5 | 314.4 | 1,134.9 |
| Profit before tax £m | 95.5 | 81.9 | 88.6 | 94.0 | 360.0 |
| Net new business £bn | 1.6 | 1.1 | 2.6 | 4.1 | 9.4 |
| AUM £bn | 199.6 | 194.6 | 202.8 | 212.0 | n/a |

* Excludes exceptional items

### Net revenue and assets under management

Net revenue increased by 24.0 per cent to £1,407.6 million. Each quarter outperformed the same period of the previous year, reflecting higher levels of AUM and performance fees.

AUM increased to £262.9 billion (2012: £212.0 billion), with net inflows of £7.9 billion as investors favoured equities and multi-asset products, combined with positive investment performance as 68 per cent. of funds outperformed their benchmark or peer group over three years.** Acquisitions contributed to this growth with the purchase of STW increasing AUM by £7.1 billion on 2 April and Cazenove Capital increasing AUM by £20.1 billion on 2 July.

Net revenue included £80.6 million (2012: £28.5 million) of performance fees, equal to 5.7 per cent. (2012: 2.5 per cent.) of net revenue. The amount of performance fees varies from year to year dependent on the performance of certain funds. In 2013, we saw performance fees primarily from a range of Institutional mandates, Cazenove Capital and European equity funds.

Net revenue margin on average AUM increased to 57 bps (2012: 56 bps) with higher performance fees contributing 2 bps. The net revenue margin excluding performance fees reduced 1 bp to 54 bps mainly as a result of lower-margin mandates from acquisitions and within net new business.

### Operating expenses

Operating expenses before exceptional items increased to £919.7 million (2012: £791.2 million) due to increased headcount as a result of acquisitions and continued investment in people and infrastructure. The cost to net revenue ratio of 65 per cent. (2012: 70 per cent.) was in line with our long-term KPI of between 65 and 70 per cent.

Headcount increased by 517, of which 366 related to Cazenove Capital and STW. In addition, we continued to recruit in Asset Management, particularly within Investment and IT.

Compensation costs excluding exceptional items increased to £652.5 million (2012: £545.7 million). Compensation costs were set by reference to a ratio of total compensation costs to operating revenue of 46 per cent. (2012: 49 per cent.), equal to a profit share ratio of 39 per cent. (2012: 42 per cent.) which is in line with our long-term KPI. Variable compensation is not only dependent on revenue but also on the effective management of other costs.

Non-compensation costs increased by £21.7 million to £267.2 million, principally due to costs within acquired businesses and continued investment in organic growth.

### Profit before tax

Profit before tax and exceptional items increased by 41.1 per cent. to £507.8 million (2012: £360.0 million). After exceptional items of £60.3 million, the Group's profit before tax is £447.5 million. Exceptional items are significant items of income and expenditure that have been presented separately by virtue of their nature to enable a better understanding of the Group's financial performance. Those items are set out in note 1(c) and principally relate to the Cazenove Capital and STW acquisitions and a provision in Wealth Management related to a US Department of Justice programme in Switzerland, explained on page 97.

### Taxation

The effective tax rate decreased from 21.3 per cent. to 20.3 per cent. due principally to changes in the UK tax rate and the geographic mix of business. It was virtually unchanged at 21.2 per cent. after exceptional items, as some of those items are not tax deductable. Profit after tax was £404.8 million (2012: £283.2 million) and £352.7 million after exceptional items.

### Earnings per share and dividends

Earnings per share before exceptional items was up 43.2 per cent. at 149.9 pence as a result of higher profit before tax partially offset by a higher tax charge despite the lower effective tax rate. The diluted earnings per share includes the potential impact of employee share awards scheduled to vest within the next five years. The KPI of earnings per share after exceptional items was 130.6 pence (2012: 104.7 pence). The IFRS dividend, comprising the 2012 final dividend and the 2013 interim dividend, is up 7 pence at 46 pence per share.

### Total comprehensive income

Total comprehensive income was £321.9 million (2012: £259.7 million).

Net losses arising from retranslating non-sterling subsidiaries were £18.6 million (2012: £21.8 million). These losses are driven by sterling strengthening principally against Japanese, Australian and Indonesian currencies.

Actuarial losses of £9.8 million (2012: gain of £10.4 million) arose from changes in assumptions partially offset by differences between expected and actual returns in defined benefit pension schemes.

The net movement in the fair value reserve in the year was a reduction of £1.3 million (2012: £9.5 million). Of that amount, £7.3 million (2012: £25.5 million) was mainly due to the transfer to the income statement of accumulated mark to market gains on realisation, partly offset by £6.0 million of net unrealised gains (2012: £16.0 million).

** See glossary for definition

# Consolidated income statement
## for the year ended 31 December 2013

| | Notes | 2013 Before exceptional items £m | 2013 Exceptional items[3] £m | 2013 Total £m | 2012 £m |
|---|---|---|---|---|---|
| Revenue | 2 | 1,809.1 | – | 1,809.1 | 1,425.4 |
| Cost of sales | 3 | (431.1) | – | (431.1) | (329.7) |
| Net gains on financial instruments and other income | 4 | 29.6 | – | 29.6 | 39.2 |
| **Net revenue[1]** | | **1,407.6** | **–** | **1,407.6** | **1,134.9** |
| Operating expenses | 5 | (919.7) | (58.1) | (977.8) | (791.2) |
| **Operating profit** | | **487.9** | **(58.1)** | **429.8** | **343.7** |
| Net finance income | 6 | 11.7 | – | 11.7 | 11.8 |
| Share of profit of associates and joint ventures | 12 | 8.2 | (2.2) | 6.0 | 4.5 |
| **Profit before tax** | | **507.8** | **(60.3)** | **447.5** | **360.0** |
| Tax | 7(a) | (103.0) | 8.2 | (94.8) | (76.8) |
| **Profit after tax** | | **404.8** | **(52.1)** | **352.7** | **283.2** |
| **Earnings per share** | | | | | |
| Basic | 8 | **149.9p** | **(19.3p)** | **130.6p** | 104.7p |
| Diluted | 8 | **144.6p** | **(18.6p)** | **126.0p** | 101.3p |
| **Dividends per share[2]** | 9 | | | **46.0p** | **39.0p** |

1 Non-GAAP measure of performance.
2 Interim and final dividends declared during the year.
3 Please refer to note 1(c) for a definition and further details of exceptional items.

# Consolidated statement of comprehensive income
## for the year ended 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Profit for the year | | 352.7 | 283.2 |
| **Items to be reclassified to the income statement on fulfilment of specific conditions:** | | | |
| Net exchange differences on translation of foreign operations after hedging | | (18.6) | (21.8) |
| Net fair value movement arising from available-for-sale financial assets | 4 | 6.0 | 16.0 |
| Net fair value movement arising from available-for-sale financial assets held by associates | 12 | (0.9) | 1.5 |
| | | **(13.5)** | **(4.3)** |
| **Reclassification to the income statement:** | | | |
| Transfer to income statement on derecognition or impairment of available-for-sale financial assets | 4 | (7.3) | (25.5) |
| | | **(7.3)** | **(25.5)** |
| **Items not to be reclassified to the income statement:** | | | |
| Actuarial (losses)/gains on defined benefit pension schemes | 26 | (9.8) | 10.4 |
| Tax on items taken directly to other comprehensive income | 7(b) | (0.2) | (4.1) |
| | | **(10.0)** | **6.3** |
| **Other comprehensive losses for the year net of tax** | | **(30.8)** | **(23.5)** |
| **Total comprehensive income for the year net of tax** | | **321.9** | **259.7** |

# Financial review continued

## Financial stability

The Group's financial position remains strong. Net assets have increased by £198.7 million to £2,268.6 million, supported by the profit for the year. Total assets have increased by £1,945.9 million of which £1,785.4 million is attributable to products sold through the Life Company. The increase in the assets of the Life Company is offset by an equivalent increase in unit-linked liabilities.

Our businesses are conducted in a number of legal forms which dictate the basis of accounting, as summarised below:

| | Statement of financial position £bn | Not recorded in the statement of financial position £bn | Total £bn |
|---|---|---|---|
| Life Company | 9.9 | – | 9.9 |
| Other asset management | – | 222.9 | 222.9 |
| Total Asset Management | 9.9 | 222.9 | 232.8 |
| Wealth Management | 2.3 | 27.8 | 30.1 |
| **Total AUM** | **12.2** | **250.7** | **262.9** |
| Third-party investors in the Life Company (see note 16) | 1.2 | | |
| Total third-party assets | 13.4 | | |
| Other assets | 3.2 | | |
| **Total assets** | **16.6** | | |

In the Asset Management business, total AUM was £232.8 billion (2012: £195.7 billion). Assets that are managed for clients are not generally owned by the Group and are not included in the statement of financial position. Certain clients, however, invest via life insurance policies managed by the Life Company. The assets backing those policies are owned by the Life Company and are included in the statement of financial position. These assets are matched by an equivalent policyholder liability.

The increase in the gross assets and liabilities of the Life Company came from new UK Institutional business, with gross inflows in quantitative equities and multi-asset strategies offset by outflows in fixed income.

Wealth Management provides both asset management and banking services. Total AUM is £30.1 billion (2012: £16.3 billion), of which £27.8 billion (2012: £13.8 billion) is not included in the statement of financial position. Wealth Management subsidiaries are however legally responsible for the banking assets and liabilities. Gross assets and liabilities relating to banking operations are therefore included in the statement of financial position.

### Consolidated net assets

In 2013, the principal impacts on the Group's financial position have been the Cazenove Capital acquisition, the continued growth in the Life Company, and the profitability of the Group.

Total consideration for the acquisitions of Cazenove Capital and STW in 2013 was £419.9 million. This included £354.6 million of goodwill and intangible assets and is the main reason for the increase in goodwill and intangible assets. The increase was partially offset by £7.7 million of amortisation of intangible assets and foreign exchange translation differences, net of further expenditure on software. The consideration paid for Cazenove Capital included £217.1 million of loan notes, most of which have been redeemed, with £8.4 million outstanding at the year end.

We also paid £7.8 million to acquire an interest in a joint venture, Secquaero and for a further investment in our associate, RWC.

Group profitability resulted in total comprehensive income increasing the net asset position of the Group by £321.9 million, as explained on page 88. This was partially offset by share transactions and dividends of £123.2 million, set out on page 93.

Other notable movements include the following:

Trade and other receivables increased by £179.5 million. This reflected higher levels of settlement activity over the year-end period, which also impacted trade and other payables, and an increase in accrued and billed fee income receivable as AUM reached record levels and fourth quarter performance fees became due.

Financial assets other than in the Life Company decreased by £354.0 million, with a £94.2 million reduction in Wealth Management loans and advances and a £259.8 million reduction in investments and derivatives. The size of Wealth Management assets and liabilities is dependent on the quantity and type of client transactions. Loans and advances to clients are secured on client assets including property and portfolios of securities.

The decrease in investments and derivatives was mainly due to the disposal of short-term liquid assets to provide the consideration for acquisitions and funding for the purchase of Schroders shares to hedge share awards. These outflows were partially offset by cash receipts from Group operating companies that were subsequently invested.

Trade and other payables increased by £204.8 million as a result of higher levels of settlement activity and an increase in accrued compensation as headcount grew by 17 per cent.

Provisions decreased by £12.8 million to £51.2 million as the Group settled amounts provided for at the end of 2012 which were substantially covered by external insurance policies. This was partially offset by a new provision in the Group's Swiss bank that is explained in the segmental review on page 97.

# Consolidated statement of financial position

**31 December 2013**

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 2,522.5 | 2,542.8 |
| Trade and other receivables | 10 | 594.2 | 414.7 |
| Financial assets | 11 | 1,665.8 | 2,019.8 |
| Associates and joint ventures | 12 | 83.1 | 79.4 |
| Property, plant and equipment | 13 | 22.5 | 15.0 |
| Goodwill and intangible assets | 14 | 489.0 | 142.1 |
| Deferred tax | 15(a) | 48.5 | 47.8 |
| Retirement benefit scheme surpluses | 26 | 63.7 | 67.2 |
| | | **5,489.3** | **5,328.8** |
| **Assets backing unit-linked liabilities** | | | |
| Cash and cash equivalents | | 777.2 | 820.5 |
| Financial assets | | 10,354.5 | 8,525.8 |
| | 16 | **11,131.7** | **9,346.3** |
| **Total assets** | | **16,621.0** | **14,675.1** |
| **Liabilities** | | | |
| Trade and other payables | 17 | 764.1 | 559.3 |
| Financial liabilities | 18 | 2,351.2 | 2,585.1 |
| Current tax | | 46.6 | 40.8 |
| Provisions | 19(a) | 51.2 | 64.0 |
| Deferred tax | 15(b) | 1.7 | 1.9 |
| Retirement benefit scheme deficits | | 5.9 | 7.8 |
| | | **3,220.7** | **3,258.9** |
| **Unit-linked liabilities** | 16 | **11,131.7** | **9,346.3** |
| **Total liabilities** | | **14,352.4** | **12,605.2** |
| **Net assets** | | **2,268.6** | **2,069.9** |
| **Equity** | | **2,268.6** | **2,069.9** |

The financial statements were approved by the Board of Directors on 5 March 2014 and signed on its behalf by:

**Richard Keers**
Director

**Bruno Schroder**
Director

# Financial review continued

## Capital strength

The Group is well capitalised. Its operating businesses are regulated by the FCA and PRA in the UK and by local regulators in 26 other countries, which set minimum capital requirements in line with banking, asset management and insurance laws and regulations.

Group equity increased by £198.7 million during the year. This increase was mainly due to £321.9 million of total comprehensive income partially offset by £123.2 million net transactions with shareholders, including £123.5 million of dividends paid by Schroders plc.

| | **2013 £m** | 2012 £m |
|---|---|---|
| Regulatory capital | 603 | 539 |
| Other operational capital | 468 | 418 |
| **Operational capital** | 1,071 | 957 |
| Investment capital | 677 | 926 |
| Goodwill, intangible assets (excluding software) and pension scheme surpluses | 521 | 187 |
| **Total capital** | 2,269 | 2,070 |

### Operational capital

Schroders plc is regulated by the PRA as a UK consolidated group. Using the capital resources requirement for a Group holding a banking licence, the Group's minimum capital requirement at 31 December 2013 was £603 million (2012: 539 million). The increase of £64 million is due to growth in the business which includes acquisitions completed in the year.

The Group's policy is for subsidiaries to have sufficient capital to meet regulatory requirements, to keep an appropriate standing with counterparties and to meet working capital requirements.

Wealth Management is operated separately from Asset Management and the Group segment and has a consolidated tier 1 capital ratio of 27 per cent. (2012: 26 per cent.).

Regulated entities within the Group complied at all times with regulatory capital requirements.

During the year, operational capital increased as a result of total comprehensive income recorded by operating subsidiaries, partially offset by amounts transferred to investment capital.

Dividends in excess of £300 million are expected to be paid by subsidiaries to Group holding companies in 2014. This will reduce operational capital and increase investment capital.

### Investment capital

Investment capital is shareholders' investible equity held in excess of operational requirements. It is managed with the aim of achieving a low-volatility cash plus 1.5 per cent. absolute return. It is mainly held in cash deposits, certificates of deposits, commercial paper, government-guaranteed bonds, Schroders' funds and seed capital.

Capital is used to seed new investment strategies, co-invest selectively alongside our clients and finance organic and inorganic growth opportunities. Seed capital is deployed principally to support the growth of the Asset Management business. The market risk on seed capital investments is hedged where an appropriate hedge is available. Capital is deployed in accordance with limits approved by the Board.

Investment capital reduced in the year as the cash funding of the Cazenove Capital and STW acquisitions including loan note redemptions (£369 million), dividends to shareholders (£124 million) and the purchase of own shares for hedging (£143 million) exceeded cash dividends received from operating companies (£348 million).

### Other capital

Other capital comprises assets that are not admissible for regulatory purposes and that cannot be managed by the Group to produce a specified rate of return. Such assets are goodwill, intangible assets (other than software) and surpluses on defined benefit pension schemes.

The main movements in other capital during the year were due to goodwill of £222.3 million and intangible assets of £100.8 million arising on the Cazenove Capital acquisition. Goodwill and intangible assets arising on the STW acquisition were £19.8 million and £11.7 million respectively. There were other small movements on intangible asset amortisation and actuarial losses on pension schemes.

### Own share transactions

The Group issued 1.8 million non-voting ordinary shares for the purpose of employee share awards, mainly in connection with the Cazenove Capital acquisition. 1.6 million non-voting ordinary shares were subsequently cancelled as we aim to maintain a target of one non-voting ordinary to every four ordinary shares in issue.

Additions to own shares during the year were £142.3 million. This included £30.5 million of non-voting ordinary shares issued and £36.3 million of ordinary shares purchased, both of which were placed in an employee trust to satisfy obligations under share-based awards arising from the acquisition of Cazenove Capital. A further £29.8 million of non-voting ordinary shares were purchased for cancellation in order to maintain the target ratio of non-voting ordinary to ordinary shares in issue. The remaining purchases of £45.7 million relate to ordinary and non-voting ordinary shares acquired as part of our policy of hedging our share-based awards. A total of £30.8 million shares bought back were cancelled during the year and £46.7 million were transferred on vesting of share-based awards.

### Dividends

The Group's dividend policy is set out on page 21. The Board has recommended a total dividend in respect of 2013 of 58.0 pence, a 35 per cent. increase. In August 2013, the Group increased the interim dividend to 16.0 pence and the recommended final dividend is 42.0 pence. This reflects the record profitability in the year and the Board's confidence in the Group's long-term growth prospects.

**Further information**

The Pillar 3 report at **www.schroders.com/ir** provides further information on the calculation of regulatory capital. Notes to the accounts which provide further information on the columns are cross-referenced on the statement of changes in equity.

# Consolidated statement of changes in equity

**for the year ended 31 December 2013**

| | Notes | Share capital £m | Share premium £m | Own shares £m | Net exchange differences £m | Associates and joint ventures reserve £m | Fair value reserve £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 282.5 | 90.1 | (165.1) | 101.8 | 25.5 | 25.6 | 1,709.5 | 2,069.9 |
| **Profit for the year** | | **–** | **–** | **–** | **–** | **6.0** | **–** | **346.7** | **352.7** |
| **Other comprehensive losses[1]** | | **–** | **–** | **–** | **(18.6)** | **(0.9)** | **(1.3)** | **(10.0)** | **(30.8)** |
| **Total comprehensive income for the year** | | **–** | **–** | **–** | **(18.6)** | **5.1** | **(1.3)** | **336.7** | **321.9** |
| Shares issued | 22 | 1.8 | 29.3 | – | – | – | – | – | 31.1 |
| Shares cancelled | 22 | (1.6) | – | – | – | – | – | 1.6 | – |
| Share-based payments | 27 | – | – | – | – | – | – | 56.6 | 56.6 |
| Share-based payment obligations acquired in business combination | 28 | – | – | – | – | – | – | 39.0 | 39.0 |
| Tax in respect of share schemes | 7(c) | – | – | – | – | – | – | 17.6 | 17.6 |
| Other movements in associates and joint venture reserve | 12 | – | – | – | – | (0.9) | – | – | (0.9) |
| Dividends attributable to shareholders | 9 | – | – | – | – | – | – | (123.5) | (123.5) |
| Dividends attributable to non-controlling interests | | – | – | – | – | – | – | (0.4) | (0.4) |
| Own shares purchased | 23 | – | – | (142.3) | – | – | – | (0.4) | (142.7) |
| **Transactions with shareholders** | | **0.2** | **29.3** | **(142.3)** | **–** | **(0.9)** | **–** | **(9.5)** | **(123.2)** |
| **Transfers** | | **–** | **–** | **77.5** | **–** | **(6.2)** | **–** | **(71.3)** | **–** |
| **At 31 December 2013** | | **282.7** | **119.4** | **(229.9)** | **83.2** | **23.5** | **24.3** | **1,965.4** | **2,268.6** |

| | Notes | Share capital £m | Share premium £m | Own shares £m | Net exchange differences £m | Associates and joint ventures reserve £m | Fair value reserve £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | | 282.5 | 87.8 | (172.5) | 123.8 | 25.8 | 34.9 | 1,519.3 | 1,901.6 |
| **Profit for the year** | | **–** | **–** | **–** | **–** | **4.5** | **–** | **278.7** | **283.2** |
| **Other comprehensive (losses)/income[1]** | | **–** | **–** | **–** | **(22.0)** | **1.5** | **(9.3)** | **6.3** | **(23.5)** |
| **Total comprehensive income for the year** | | **–** | **–** | **–** | **(22.0)** | **6.0** | **(9.3)** | **285.0** | **259.7** |
| Shares issued | 22 | 0.5 | 2.3 | – | – | – | – | – | 2.8 |
| Shares cancelled | 22 | (0.5) | – | – | – | – | – | 0.5 | – |
| Share-based payments | 27 | – | – | – | – | – | – | 45.3 | 45.3 |
| Tax in respect of share schemes | 7(c) | – | – | – | – | – | – | 6.3 | 6.3 |
| Dividends attributable to shareholders | 9 | – | – | – | – | – | – | (104.1) | (104.1) |
| Own shares purchased | 23 | – | – | (41.7) | – | – | – | – | (41.7) |
| **Transactions with shareholders** | | **–** | **2.3** | **(41.7)** | **–** | **–** | **–** | **(52.0)** | **(91.4)** |
| **Transfers** | | **–** | **–** | **49.1** | **–** | **(6.3)** | **–** | **(42.8)** | **–** |
| **At 31 December 2012** | | **282.5** | **90.1** | **(165.1)** | **101.8** | **25.5** | **25.6** | **1,709.5** | **2,069.9** |

[1] Other comprehensive losses in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive (losses)/income in the associates and joint ventures reserve and the fair value reserve represent fair value movements on available-for-sale assets held. Other comprehensive (losses)/income in the profit and loss reserve represent post-tax actuarial gains and losses.

# Financial review continued

## Analysis of cash flows

### Cash position

The Group's cash balance of £3,299.7 million is analysed below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Cash in Wealth Management operations | 1,824.9 | 1,745.3 |
| Cash in Life Company operations | 777.2 | 820.5 |
| Cash in Group segment | 375.2 | 529.7 |
| Cash in other asset management | 322.4 | 267.8 |
| **Total** | **3,299.7** | **3,363.3** |

The cash held in the Life Company's long-term fund cannot be used by the Group for its own corporate purposes. Similarly, Wealth Management cash is not made available for general corporate purposes. Excluding cash held within these businesses, the Group's cash holdings have decreased by £99.9 million to £697.6 million in 2013, driven by cash outflows in respect of dividend payments, purchases of own shares and the cash consideration paid for business combinations. This was partly funded by the proceeds from disposals of liquid investments and cash inflows arising from the profit for the year.

The liquidity position in Wealth Management is strong. Across all jurisdictions, the Group's individual Wealth Management entities maintain liquidity ratios that are substantially in excess of those required by local regulators. Cash within Wealth Management increased by £79.6 million in the year.

In addition to its liquid assets, the Group has access to £50 million of committed banking facilities which expire on 30 September 2018.

### Operating cash flow (see note 24)

Operating cash flows arise primarily from the Group's operating profit of £429.8 million. Cash flows from operating activities have reduced by £285.1 million to £204.1 million in 2013.

Life Company flows relate to cash that remains within the Life Company's long-term fund. Operating cash inflows from the Life Company depend on the movement of uninvested cash and represent £190.2 million of the reduction in cash from operating activities compared with the prior year. Similarly cash flows from Wealth Management relating to client accounts and deposits by banks depend on client activity and account for £145.9 million of the reduction. This has been offset by a net increase in other operating cash flows of £51.0 million. This is due to higher operating profits partially offset by other working capital movements and taxation.

### Investing activities

The net cash outflow arising from the Cazenove Capital and STW acquisitions was £273.2 million. This comprised initial consideration paid in cash of £160.2 million (see note 28) and £208.7 million of loan notes redeemed by holders, partially offset by cash held in the entities at acquisition of £95.7 million. Acquisitions of associates and joint ventures included the new investment in Secquaero, a Swiss insurance-linked securities manager, and a further investment in RWC. Other cash flows relating to investing activities include routine investment in property, plant and equipment and software, the proceeds on the sale of liquid securities in the investment capital portfolio to part fund the Cazenove Capital acquisition and the disposal of other short-term investments in the Wealth Management business as clients made withdrawals from accounts. These transactions amounted to a net inflow of £253.8 million (2012: £36.5 million).

### Financing activities

Cash used in financing activities was £236.3 million (2012: £144.9 million). The outflow was principally a result of paying dividends to shareholders of £123.5 million (2012: £104.1 million) and purchasing £112.2 million (2012: £41.7 million) of own shares to hedge existing share-based awards to employees and obligations for employee awards transferred as part of the Cazenove Capital business combination.

### Credit quality

The Company has a credit rating of A+ from both Fitch and Standard & Poor's.

### Going concern

Having considered the liquidity of the Group, the cash and other resources of the Group and the Group's cash requirements, the Directors consider the Group to be a going concern, as outlined on page 82.

**Further information**

The cross-referenced note to the accounts provides further information on operating cash flows.

# Consolidated cash flow statement

**for the year ended 31 December 2013**

| | Note | 2013 £m | 2012 £m |
|---|---|---|---|
| **Net cash from operating activities** | 24 | **204.1** | **489.2** |
| | | | |
| **Cash flows from investing activities** | | | |
| Net cash consideration for the acquisition of subsidiaries, including loan redemptions | | (273.2) | – |
| Acquisition of associates and joint ventures | | (7.8) | (23.3) |
| Net acquisition of property, plant and equipment and intangible assets | | (25.8) | (12.8) |
| Net disposal of financial assets | | 265.2 | 54.1 |
| Non-banking interest received | | 15.7 | 12.0 |
| Distributions received from associates and joint ventures | | 6.5 | 6.5 |
| **Net cash (used in)/from investing activities** | | **(19.4)** | **36.5** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of non-voting ordinary shares | | 0.6 | 2.8 |
| Acquisition of own shares | | (112.2) | (41.7) |
| Dividends paid | | (123.5) | (104.1) |
| Other flows | | (1.2) | (1.9) |
| **Net cash used in financing activities** | | **(236.3)** | **(144.9)** |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(51.6)** | 380.8 |
| | | | |
| Opening cash and cash equivalents | | 3,363.3 | 3,012.3 |
| Net (decrease)/increase in cash and cash equivalents | | (51.6) | 380.8 |
| Effect of exchange rate changes | | (12.0) | (29.8) |
| **Closing cash and cash equivalents** | | **3,299.7** | **3,363.3** |
| | | | |
| **Closing cash and cash equivalents consists of:** | | | |
| Cash backing unit-linked liabilities | | **777.2** | **820.5** |
| Other cash and cash equivalents held by the Group: | | | |
| Cash | | 1,771.5 | 1,718.7 |
| Cash equivalents | | 751.0 | 824.1 |
| | | **2,522.5** | **2,542.8** |
| | | | |
| | | **3,299.7** | **3,363.3** |

The cash held in the Life Company's long-term fund cannot be used by the Group for its own corporate purposes.

# Financial review continued

## Financial review of segmental results

The Group has three business segments: Asset Management, Wealth Management (formerly Private Banking) and Group. See pages 22 to 27.

### Asset Management

Net revenue comprises fees based on AUM, transaction-related fees and performance fees that are dependent on the performance of particular mandates and funds.

AUM increased year-on-year to £232.8 billion (2012: £195.7 billion) due to investment returns of £13.7 billion, assets acquired with the acquisitions of Cazenove Capital and STW of £14.0 billion and net new business of £9.4 billion.

Net revenue increased 23 per cent. to £1,247.2 million. The net revenue margin including performance fees was 56 bps (2012: 55 bps). The margin excluding performance fees decreased by 1 bp to 53 bps (2012: 54 bps). The decrease in margin excluding performance fees mainly reflected the net impact of lower margin fees on the AUM acquired from the acquisitions and the change in product mix. STW is a US institutional fixed income manager and its impact on the overall margin has only been partially offset by the acquisition of Cazenove Capital's predominantly higher margin intermediary business.

Performance fees of £80.2 million (2012: £28.4 million) were 6.4 per cent. (2012: 2.8 per cent.) of net revenue in 2013. £35.1 million (2012: £24.4 million) of these related to Institutional clients and £45.1 million (2012: £4.0 million) to Intermediary clients. This increase includes £29.9 million of fees from Cazenove Capital and £16.6 million (2012: £1.5 million) from the Luxembourg-domiciled European Special Situations Fund following strong performance in 2013.

Net revenues of £557.2 million (2012: £489.3 million) were generated from Institutional clients and £690.0 million (2012: £525.5 million) from the Intermediary sales channel.

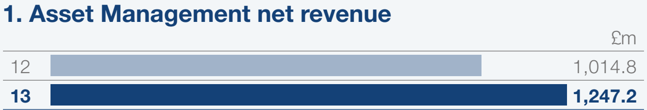
Net revenue increased in Institutional as AUM benefited from further market growth, net sales of £4.6 billion and the acquisition of STW, which added £7.1 billion in April. Net inflows during the year were predominantly from Asian and UK clients into multi-asset products.

Intermediary revenue was also higher, due to the Cazenove Capital acquisition adding £6.9 billion AUM together with net inflows. As with the Institutional channel, there was strong demand from Asian clients for multi-asset products, particularly Asian and Global Multi-asset income funds. Post acquisition net inflows into Cazenove Capital funds in the UK were also strong and offset the net outflows from UK large-cap equities seen earlier in the year.

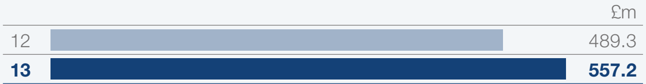
Asset Management costs increased to £784.9 million (2012: £671.4 million). This was largely driven by headcount increasing to 2,925 (2012: 2,663) as a result of acquisitions and our continued investment in people. Non-staff costs increased by 14.9 per cent., to £212.2 million (2012: £184.7 million).

Asset Management profit before tax and exceptional items increased by 34.5 per cent. to £468.6 million (2012: £348.5 million).

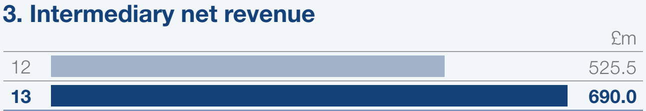
**1. Asset Management net revenue**



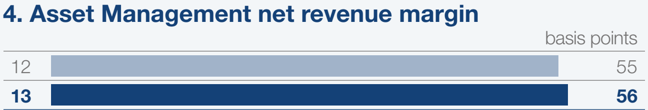

**2. Institutional net revenue**




**3. Intermediary net revenue**

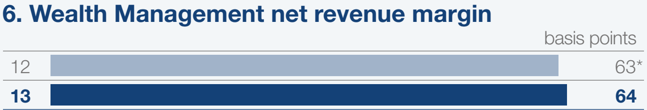



**4. Asset Management net revenue margin**




**5. Wealth Management net revenue**


**6. Wealth Management net revenue margin**




* Excluding loan losses

Exceptional costs of £13.5 million represent the accounting charges associated with integration costs and amortising acquired intangible assets. Profit before tax and after exceptional items is £455.1 million.

### Wealth Management (formerly Private Banking)

During the year we have renamed our Private Banking segment to Wealth Management to reflect better the services offered.

Wealth Management net revenue increased by 58.9 per cent. to £150.0 million (2012: £94.4 million) and is shown below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Management fees | 109.7 | 68.7 |
| Transaction fees | 26.7 | 19.8 |
| Net banking interest income | 13.6 | 13.8 |
| Loan losses | – | (7.9) |
| **Total net revenue** | **150.0** | **94.4** |

AUM increased year-on-year to £30.1 billion (2012: £16.3 billion). This increase includes the impact of the Cazenove Capital acquisition on 2 July, which added £13.2 billion of AUM. Net outflows were £1.5 billion mainly due to the expected loss of two large low margin mandates in the second half of the year.

Management fees increased 59.7 per cent. to £109.7 million. Transaction fees have increased by 34.8 per cent. to £26.7 million, benefiting from the addition of Cazenove Capital clients. Net banking interest income of £13.6 million was largely unchanged from 2012. In total, net revenue has increased by £55.6 million (58.9 per cent.) to £150.0 million. Net revenue has also increased due to the absence of loan losses in the year (2012: £7.9 million). We continue to monitor those loans which have previously been impaired and take appropriate action to minimise the Group's exposure to any further losses. As a result the value of loans where we have suffered losses in prior years is now £34.2 million (2012: £37.7 million).

The Wealth Management net revenue margin has increased to 64 bps (2012: 58 bps). Excluding the loan losses incurred in 2012, the net revenue margin has increased by 1 bp, mainly due to the Cazenove Capital acquisition.

Wealth Management operating expenses increased to £115.7 million (2012: £82.6 million), mainly due to the inclusion of the costs of Cazenove Capital from 2 July. Profit before tax and exceptional items increased by 190.7 per cent. to £34.3 million (2012: £11.8 million).

Exceptional costs of £30.9 million comprise charges for acquired intangible assets and a provision of £15.0 million for a possible penalty payable in connection with the US Department of Justice (DOJ) programme announced on 29 August 2013 that applies industry wide to Swiss banks.** This provision is our current estimate within a range of the amount that may be payable in connection with the programme to identify accounts with Swiss banks related to clients who may not have been US-tax compliant. The Swiss bank is participating voluntarily in this programme which in substance requires a bank to pay a penalty where fully sufficient evidence is not available to meet DOJ standards to demonstrate that a client is compliant. The Group is gathering evidence in this regard, which will be subject to final assessment by the DOJ. Profit before tax and after exceptional items is £3.4 million.

## Group segment

The returns on investment capital that are recorded in the Group segment are shown in the table below. Depending on the classification of the assets, returns are either recorded in the income statement or, where investments are classified as 'available-for-sale', fair value movements are recorded in the statement of comprehensive income.

The total seed capital return was £2.6 million (2012: £5.0 million) on an average investment of £181 million (2012: £165 million). We hedge out currency and market exposures where practical and cost effective. The gains in the portfolio represent returns that were greater than market returns and changes in unhedged market value.

The remainder of the portfolio returned £16.3 million (2012: £27.0 million) on average assets of £695 million (2012: £741 million).

In total, investment capital returned £18.9 million (2012: £32.0 million) of which £20.0 million (2012: £41.0 million) was recorded in the income statement offset by £1.1 million (2012: £9.0 million) of charges recorded in reserves. Within the 2013 reserve movement is a charge of £7.3 million that offsets cumulative gains which were transferred to the income statement.

Group costs decreased to £19.1 million (2012: £37.2 million) and include a net release of £5.7 million in respect of provisions established in 2012 where insurance recovery has been obtained. This compares to a net charge of £13.1 million in 2012. Excluding these and other one-off items, underlying costs were £28.9 million (2012: £29.7 million) being the governance and general management costs of the Group.

The Group segment profit before tax was £4.9 million (2012: £0.3 million loss). Exceptional items comprise acquisition costs related to Cazenove Capital and STW. It also includes acquisition costs in the form of share-based payments which are required under accounting rules to be included as an income statement charge. The loss before tax and after exceptional items is £11.0 million.



## Group segment net income and capital returns

| | **Income statement £m** | **Other comprehensive income £m** | **2013 £m** | Income statement £m | Other comprehensive income £m | 2012 £m |
|---|---|---|---|---|---|---|
| Seed capital return | 3.5 | (0.9) | 2.6 | 4.5 | 0.5 | 5.0 |
| Other investment capital return | 15.0 | (0.2) | 14.8 | 37.0 | (9.5) | 27.5 |
| Associates | 1.5 | – | 1.5 | (0.5) | – | (0.5) |
| **Total investment capital return** | **20.0** | **(1.1)** | **18.9** | **41.0** | **(9.0)** | **32.0** |
| Other returns | 4.0 | – | 4.0 | (4.1) | – | (4.1) |
| **Total** | **24.0*** | **(1.1)** | **22.9** | **36.9*** | **(9.0)** | **27.9** |

* Comprising net revenue, net finance income and the share of profit/(loss) of associates and joint ventures.

** Further details of the DOJ programme can be found at www.justice.gov.

# Notes to the accounts

## 1. Segmental reporting
## (a) Operating segments

| Year ended 31 December 2013 | Asset Management £m | Wealth Management £m | Group £m | Total £m |
|---|---|---|---|---|
| Fee income | 1,639.7 | 140.9 | 0.2 | 1,780.8 |
| Banking interest receivable | – | 28.3 | – | 28.3 |
| **Revenue** | 1,639.7 | 169.2 | 0.2 | 1,809.1 |
| Fee expense | (411.4) | (4.9) | (0.1) | (416.4) |
| Banking interest payable | – | (14.7) | – | (14.7) |
| **Cost of sales** | (411.4) | (19.6) | (0.1) | (431.1) |
| Net gains on financial instruments and other income | 18.9 | 0.4 | 10.3 | 29.6 |
| **Net revenue** | 1,247.2 | 150.0 | 10.4 | 1,407.6 |
| Operating expenses | (784.9) | (115.7) | (19.1) | (919.7) |
| **Operating profit/(loss)** | 462.3 | 34.3 | (8.7) | 487.9 |
| Net finance (charge)/income | (0.4) | – | 12.1 | 11.7 |
| Share of profit of associates and joint ventures | 6.7 | – | 1.5 | 8.2 |
| **Profit before tax and exceptional items** | 468.6 | 34.3 | 4.9 | 507.8 |

The Group has three business segments: Asset Management, Wealth Management (formerly Private Banking) and Group. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, property and alternative asset classes such as commodities, private equity and funds of hedge funds. Wealth Management principally comprises investment management, financial planning and banking services provided to high net worth individuals and charities. Group principally comprises the Group's investment capital and treasury management activities, insurance arrangements and the management costs associated with governance and corporate management. Insurance activities comprise acting as an insurer to the Group, including the results of the captive insurer which provides reinsurance for certain activities of the Group. Provisions for actual and potential claims that are within the insurance cover are consequently recorded in the Group segment, net of any recognisable external insurance asset. If it is concluded that there is no insurance cover available or the insurance cover will not cover the charge in full, the actual or estimated cost in excess of the insurance recovery is transferred to the relevant operating segment. The expected insurance recovery may be in excess of the amount that is allowed to be recorded under accounting rules.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker, the Chief Executive.

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

## 1. Segmental reporting continued

| Year ended 31 December 2012 | Asset Management £m | Wealth Management £m | Group £m | Total £m |
|---|---|---|---|---|
| Fee income | 1,295.5 | 96.3 | 0.5 | 1,392.3 |
| Banking interest receivable | – | 33.1 | – | 33.1 |
| **Revenue** | 1,295.5 | 129.4 | 0.5 | 1,425.4 |
| | | | | |
| Fee expense | (303.1) | (7.2) | (0.1) | (310.4) |
| Banking interest payable | – | (19.3) | – | (19.3) |
| **Cost of sales** | (303.1) | (26.5) | (0.1) | (329.7) |
| | | | | |
| Net gains/(losses) on financial instruments and other income | 22.4 | (8.5) | 25.3 | 39.2 |
| **Net revenue** | 1,014.8 | 94.4 | 25.7 | 1,134.9 |
| | | | | |
| Operating expenses | (671.4) | (82.6) | (37.2) | (791.2) |
| **Operating profit/(loss)** | 343.4 | 11.8 | (11.5) | 343.7 |
| | | | | |
| Net finance income | 0.1 | – | 11.7 | 11.8 |
| Share of profit/(loss) of associates and joint ventures | 5.0 | – | (0.5) | 4.5 |
| **Profit/(loss) before tax** | 348.5 | 11.8 | (0.3) | 360.0 |

Segment asset and liabilities are not required to be presented as such information is not presented on a regular basis to the chief operating decision-maker.

### (b) Geographical information

Net revenue is allocated below by country based on the location of clients:

| | Net revenue | |
|---|---|---|
| **Country** | **2013 £m** | 2012 £m |
| United Kingdom | 535.6 | 408.3 |
| United States | 118.2 | 96.1 |
| Switzerland | 100.1 | 90.6 |
| Australia | 95.1 | 72.3 |
| Italy | 79.8 | 61.7 |
| Hong Kong | 79.7 | 56.5 |
| Japan | 44.0 | 46.2 |
| Germany | 41.1 | 40.5 |
| Other | 314.0 | 262.7 |
| **Total** | **1,407.6** | **1,134.9** |

The Group's non-current assets are located in the following countries:

| | Non-current assets* | |
|---|---|---|
| **Country** | **2013 £m** | 2012 £m |
| United Kingdom | 442.1 | 111.9 |
| China | 37.3 | 34.9 |
| United States | 29.4 | 0.8 |
| Switzerland | 26.7 | 24.6 |
| India | 18.0 | 22.5 |
| Singapore | 7.9 | 9.9 |
| Other | 33.5 | 33.1 |
| **Total** | **594.9** | **237.7** |

* Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

# Notes to the accounts

## 1. Segmental reporting continued
### (c) Exceptional items

Exceptional items are significant items of income and expenditure that have been presented separately by virtue of their nature to enable a better understanding of the Group's financial performance. In 2013, exceptional items relate principally to acquisitions made by the Group, including costs of acquisition and integration, amortisation of acquired intangible assets and deferred compensation, together with a provision in the Swiss bank related to the US Department of Justice programme (see note 19).

| Year ended 31 December 2013 | Asset Management £m | Wealth Management £m | Group £m | Total £m |
|---|---|---|---|---|
| **Profit before tax and exceptional items** | **468.6** | **34.3** | **4.9** | **507.8** |
| **Exceptional items within operating expenses:** | | | | |
| Acquisition costs | – | – | (4.2) | (4.2) |
| Integration costs | (4.0) | (7.2) | – | (11.2) |
| Amortisation of acquired intangible assets | (7.3) | (6.0) | – | (13.3) |
| Deferred compensation arising from acquisitions | – | – | (11.7) | (11.7) |
| Provisions and related costs | – | (17.7) | – | (17.7) |
| | **(11.3)** | **(30.9)** | **(15.9)** | **(58.1)** |
| **Exceptional items within share of profit of associates and joint ventures:** | | | | |
| Amortisation of acquired intangible assets | (2.2) | – | – | (2.2) |
| **Profit/(loss) before tax and after exceptional items** | **455.1** | **3.4** | **(11.0)** | **447.5** |

Similar items of income and expenditure recognised in 2012 were not material and have not been presented separately. Deferred compensation arising from acquisitions includes £7.5 million of Restricted and Growth Share Plan costs in respect of Cazenove Capital (see note 27(e)).

### (d) Non-cash items

| Year ended 31 December 2013 | Asset Management £m | Wealth Management £m | Group £m | Total £m |
|---|---|---|---|---|
| **Operating expenses include the following non-cash items:** | | | | |
| Share-based payments | (44.1) | (2.0) | (10.5) | (56.6) |
| Depreciation and amortisation | (19.1) | (6.7) | – | (25.8) |
| Provisions (charged)/reversed, net of insurance recovery | (1.6) | (17.1) | 0.1 | (18.6) |

Where applicable, exceptional items are included in the non-cash items above.

| Year ended 31 December 2012 | Asset Management £m | Wealth Management £m | Group £m | Total £m |
|---|---|---|---|---|
| **Operating expenses include the following non-cash items:** | | | | |
| Share-based payments | (41.3) | (1.8) | (2.2) | (45.3) |
| Depreciation and amortisation | (11.5) | (0.5) | – | (12.0) |
| Provisions reversed/(charged), net of insurance recovery | 9.3 | (2.0) | (4.9) | 2.4 |

## 2. Revenue

The Group's primary source of revenue is fee income from investment management activities within both Asset Management and Wealth Management and includes fees that are paid away to intermediaries as part of cost of sales (see note 3). Management fees are generally based on an agreed percentage of the valuation of the AUM and are recognised as the service is provided and it is probable that the fee will be received. If fees are received in advance, the amounts received are only recognised in the income statement once the Group provides the service for which the client has paid.

Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised, at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that it will be received.

Revenue also includes other fees, principally transaction-based, which vary based on the volume of transactions, such as transfer agency fees which are recorded as income as the service is provided and the receipt of income is almost certain.

Wealth Management receives interest as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities. For Wealth Management, earning a net interest margin is a core activity; interest income is therefore recorded separately from interest earned elsewhere in the business. Interest income is recognised as it is earned using the effective interest method, which allocates interest income at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

Revenue comprises:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Management fees | 1,533.9 | 1,223.9 |
| Performance fees | 80.6 | 28.5 |
| Other fees | 166.3 | 139.9 |
| Interest income earned by Wealth Management | 28.3 | 33.1 |
| | **1,809.1** | **1,425.4** |

## 3. Cost of sales

Fee expense principally comprises commissions, external fund manager fees and distribution fees payable to financial institutions that distribute our products, investment platform providers and financial advisers. The expense is generally based on an agreed percentage of the value of the investments placed with the Group and is recognised in the income statement as the service is provided.

Wealth Management pays interest to clients on deposits taken. For Wealth Management, earning a net interest margin is a core activity; interest payable in respect of these activities is therefore recorded separately from interest payable elsewhere in the business. Interest payable is recognised using the effective interest method (see note 2).

Cost of sales comprises:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Fee expense | 416.4 | 310.4 |
| Interest expense incurred by Wealth Management | 14.7 | 19.3 |
| | **431.1** | **329.7** |

# Notes to the accounts

## 4. Net gains on financial instruments and other income

The Group holds investment capital, which is invested in a variety of financial instruments, and targets a low-volatility cash plus 1.5 per cent. absolute return. Investments are also held for regulatory capital purposes in certain operating entities and as a stock of units to facilitate purchases and sales by the UK unit trust manager. Net gains and losses, principally representing market movements on financial instruments such as fixed income debt instruments, equities and certain loans and deposits in Wealth Management that are held at fair value to match the revaluation of interest rate swaps, are recognised in this line of the income statement as are any gains and losses on derivatives (which mainly arise from hedging activities).

Of the Group's investments held at fair value, the majority are carried at fair value through profit or loss (FVP) and gains and losses arising are recognised in the income statement. There are two types of FVP investment: those that are designated as FVP upon initial recognition, and those that are classified as held for trading. Certain other investments are classified as available-for-sale. This classification is selected typically when the investment is expected to be held for the long term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Generally, unrealised gains and losses on available-for-sale investments are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is impaired, sold or otherwise realised. The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at date of reclassification or impairment) and the fair value of financial assets that are classified as available-for-sale. Any impairments on loans and receivables are also included in the income statement. The Group reviews its available-for-sale investments and loans and receivables for impairment at the end of each reporting period.

The total return on investments also includes interest, which is included in note 6 'Net finance income'. Other income includes gains and losses on foreign exchange and rent receivable from subletting properties.

Net gains and losses in respect of financial assets and liabilities are:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Income statement £m** | **Other comprehensive income £m** | **Total £m** | Income statement £m | Other comprehensive income £m | Total £m |
| Net gains on financial instruments held at fair value through profit or loss – held for trading | 10.2 | – | 10.2 | 9.3 | – | 9.3 |
| Net losses on financial instruments designated as being at fair value through profit or loss upon initial recognition | – | – | – | (6.8) | – | (6.8) |
| **Net gains on financial instruments held at fair value through profit or loss** | **10.2** | – | **10.2** | **2.5** | **–** | **2.5** |
| | | | | | | |
| Net fair value movements on available-for-sale financial assets | – | 5.9 | 5.9 | – | 16.3 | 16.3 |
| Net exchange differences on available-for-sale financial assets | – | 0.1 | 0.1 | – | (0.3) | (0.3) |
| Net transfer on disposal of available-for-sale financial assets | 7.4 | (7.4) | – | 25.6 | (25.6) | – |
| Impairment of available-for-sale financial assets – equities | (0.1) | 0.1 | – | (0.1) | 0.1 | – |
| **Net fair value movement on available-for-sale financial assets** | **7.3** | **(1.3)** | **6.0** | **25.5** | **(9.5)** | **16.0** |
| | | | | | | |
| Impairment of loans and receivables | (0.8) | – | (0.8) | (6.0) | – | (6.0) |
| Gains made by the UK unit trust manager from buying and selling units | 10.4 | – | 10.4 | 8.3 | – | 8.3 |
| Other income | 2.5 | – | 2.5 | 8.9 | – | 8.9 |
| | | | | | | |
| **Net gains and losses on financial instruments and other income** | **29.6** | **(1.3)** | **28.3** | **39.2** | **(9.5)** | **29.7** |

## 5. Operating expenses

Operating expenses represent the Group's administrative expenses and are recognised as the services are provided. Certain costs, including leases and capitalised costs, are charged evenly over the life of the relevant contract or useful life of the asset. The biggest part is employee benefits, as shown below. Other costs include accommodation, IT, electronic information systems and marketing, along with movements in provisions which are recorded based on an estimate of unavoidable costs relating to past transactions.

Control of compensation and total cost control are both key performance indicators of the Group. Compensation is managed to a target long-term ratio of between 45 and 49 per cent. compensation to operating net revenue. Total costs are managed to a target long-term ratio of between 65 and 70 per cent. total costs to total net revenue. The compensation ratio in particular provides some flexibility to manage the overall cost base in response to market conditions.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. The Group makes some cash-based performance awards to employees which are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. Further detail on other types of employee benefit can be found elsewhere within these financial statements: see note 26 for pension costs, and note 27 for more detail on compensation that is awarded in Schroders plc shares.

### (a) Employee benefits expense and number of employees

| | **2013 £m** | 2012 £m |
|---|---|---|
| Salaries, wages and other remuneration | 573.6 | 472.4 |
| Social security costs | 63.8 | 45.7 |
| Pension costs | 28.2 | 27.6 |
| | **665.6** | **545.7** |

£13.1 million of the total compensation costs of £665.6 million are included within exceptional items, being £11.7 million of deferred compensation arising from acquisitions and £1.4 million of integration costs (see note 1(c)).

Information about key management personnel compensation can be found in note 30.

The average number of employees employed by the Company and its subsidiary undertakings during the year was:

| | **2013 number** | 2012 number |
|---|---|---|
| Full-time employees | 3,031 | 2,767 |
| Contract and temporary employees | 273 | 202 |
| | **3,304** | **2,969** |
| Employed as follows: | | |
| Asset Management | 2,832 | 2,620 |
| Wealth Management | 464 | 340 |
| Group | 8 | 9 |
| | **3,304** | **2,969** |

### (b) Audit and other services

| | **2013 £m** | 2012 £m |
|---|---|---|
| Fees payable to the auditor for the audit of the Company's consolidated financial statements | 0.5 | 0.6 |
| Fees payable to the auditor and its associates for other services: | | |
| Audit of the Company's subsidiaries | 2.5 | 2.1 |
| Audit–related assurance services | 0.2 | 0.3 |
| Other assurance services | 0.4 | 0.3 |
| Tax advisory services | 0.7 | 0.6 |
| Tax compliance services | 0.5 | 0.5 |
| Other non-audit services | 1.5 | 1.5 |
| | **6.3** | **5.9** |

# Notes to the accounts

## 6. Net finance income

The Group earns interest on non-banking activities, principally on cash and deposits with banks, but also as a result of holding investments in debt and fixed income securities. Fixed income investments and cash (excluding those of Wealth Management entities) are managed mainly by Group Treasury to earn competitive rates of return and ensure liquidity throughout the Group. Significant amounts of the Group's cash and interest-earning securities are held within Wealth Management. Interest earned on the assets held within Wealth Management is included in revenue; interest incurred on the liabilities assumed is included in cost of sales. Interest is recognised using the effective interest method (see note 2).

## 7. Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a)) and relate to taxes payable for the reporting period (current tax). The charge also includes benefits and charges relating to when income or expenses are recognised in a different period for tax and accounting purposes or specific treatment relating to acquisitions (deferred tax – see note 15). Some current and deferred taxes are recorded through other comprehensive income, mainly relating to the Group's defined benefit pension schemes (see part (b)), or directly to equity where the tax arises from changes in the value of remuneration settled as shares (see part (c)).

### (a) Analysis of tax charge reported in the income statement

| | **2013 £m** | 2012 £m |
|---|---|---|
| UK Corporation Tax on profits for the year | 47.5 | 29.6 |
| Adjustments in respect of prior year estimates | (0.1) | 1.7 |
| Foreign tax – current | 58.1 | 54.6 |
| Foreign tax – adjustments in respect of prior years | (1.3) | (8.6) |
| **Current tax** | **104.2** | **77.3** |
| | | |
| Origination and reversal of temporary differences | (8.1) | (6.5) |
| Adjustments in respect of prior year estimates | 0.5 | 4.6 |
| Effect of changes in Corporation Tax rates | (1.8) | 1.4 |
| **Deferred tax** | **(9.4)** | **(0.5)** |
| | | |
| **Tax charge reported in the income statement** | **94.8** | **76.8** |

### (b) Analysis of tax charge reported in other comprehensive income

| | **2013 £m** | 2012 £m |
|---|---|---|
| Deferred tax on actuarial (losses)/gains on defined benefit pension schemes | (2.3) | 2.6 |
| Deferred tax – effect of changes in Corporation Tax rates | 2.5 | 1.5 |
| **Tax charge reported in other comprehensive income** | **0.2** | **4.1** |

### (c) Analysis of tax credit reported in equity

| | **2013 £m** | 2012 £m |
|---|---|---|
| Current income tax on Equity Compensation Plan and other share-based remuneration | (8.3) | (3.9) |
| Deferred tax on Equity Compensation Plan and other share-based remuneration | (11.2) | (3.1) |
| Deferred tax – effect of changes in Corporation Tax rates | 1.9 | 0.7 |
| **Tax credit reported in equity** | **(17.6)** | **(6.3)** |

## 7. Tax expense continued

### (d) Factors affecting tax charge for the year

The UK standard rate of Corporation Tax reduced from 24 per cent. to 23 per cent. on 1 April 2013 resulting in a UK effective tax rate for the year of 23.25 per cent. (2012: effective rate of 24.50 per cent.). The tax charge for the year is lower (2012: lower) than a charge based on the UK effective rate. The reconciliation of the income statement tax charge to the UK rate on profits before tax including the impact of taxes incurred in overseas operations and differences in accounting versus tax profit is set out below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit before tax | 447.5 | 360.0 |
| Less post-tax profits of associates and joint ventures | (6.0) | (4.5) |
| Profit before tax of consolidated Group entities | 441.5 | 355.5 |
| Profit before tax of consolidated Group entities multiplied by Corporation Tax at the UK rate of 23.25 per cent. (2012: 24.50 per cent.) | 102.6 | 87.1 |
| **Effects of:** | | |
| Different statutory tax rates of overseas jurisdictions | 5.5 | (1.2) |
| Permanent differences including non-taxable income and non-deductible expenses | (11.4) | (9.0) |
| Net creation of tax losses for which no deferred tax asset was recognised | 0.8 | 1.1 |
| Deferred tax adjustments in respect of changes in Corporation Tax rates | (1.8) | 1.1 |
| Adjustments to prior year estimates | (0.9) | (2.3) |
| **Tax charge reported in the income statement** | **94.8** | **76.8** |

## 8. Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share (excluding shares held by the Group). The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all share options, that would be expected to be exercised as they have value to the option holder, had been exercised in the period. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

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

| | 2013 Number Millions | 2012 Number Millions |
|---|---|---|
| Weighted average number of shares used in calculation of basic earnings per share | 270.0 | 270.3 |
| Effect of dilutive potential shares – share options | 8.9 | 8.4 |
| Effect of dilutive potential shares – contingently issuable shares | 0.9 | 0.5 |
| **Weighted average number of shares used in calculation of diluted earnings per share** | **279.8** | **279.2** |

The earnings per share calculations are based on profit after tax excluding non-controlling interests of £0.1 million (2012: £0.3 million).

# Notes to the accounts

## 9. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-yearly and annual results. Dividends are recognised only when they are paid or approved by shareholders. The reduction in equity in the year therefore comprises the prior year final dividend and the current year interim dividend.

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | £m | Pence per share | £m | Pence per share | £m | Pence per share |
| Recommended and paid in year: | | | | | | |
| Final dividend recommended/paid | 112.8 | 42.0 | 80.4 | 30.0 | 69.4 | 26.0 |
| Interim dividend paid | | | 43.1 | 16.0 | 34.7 | 13.0 |
| | | | **123.5** | **46.0** | **104.1** | **39.0** |

Dividends of £6.7 million (2012: £6.0 million) on shares held by the employee trusts have been waived; dividends may not be paid on treasury shares. The recommended 2013 final dividend is payable on 7 May 2014 and will be accounted for in 2014.

## 10. Trade and other receivables

Trade and other receivables includes prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. Amounts due from third parties include fees yet to be received as well as settlement accounts for transactions undertaken on behalf of funds and investors. Trade and other receivables, other than deposits with banks in the form of bullion which are recorded at fair value, are recorded initially at fair value and then at amortised cost (see note 11), after the deduction of provisions for bad and doubtful debts. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense recognised in the income statement. Other receivables includes insurance recoveries.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Non-current £m | Current £m | Total £m | Non-current £m | Current £m | Total £m |
| **Trade and other receivables held at amortised cost:** | | | | | | |
| Fee debtors | – | 55.5 | 55.5 | – | 23.8 | 23.8 |
| Settlement accounts | – | 139.1 | 139.1 | – | 75.4 | 75.4 |
| Accrued income | – | 284.7 | 284.7 | – | 203.4 | 203.4 |
| Prepayments | 0.3 | 22.1 | 22.4 | 1.2 | 21.6 | 22.8 |
| Other receivables | 3.8 | 41.3 | 45.1 | 4.5 | 41.9 | 46.4 |
| Current tax | – | 11.0 | 11.0 | – | 4.8 | 4.8 |
| | **4.1** | **553.7** | **557.8** | **5.7** | **370.9** | **376.6** |
| **Trade and other receivables held at fair value:** | | | | | | |
| Deposits with banks in the form of bullion | – | 36.4 | 36.4 | – | 38.1 | 38.1 |
| | | | | | | |
| | **4.1** | **590.1** | **594.2** | **5.7** | **409.0** | **414.7** |

As a result of their short-term nature, the fair value of trade and other receivables held at amortised cost approximates to their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 11).

## 11. Financial assets

The Group holds financial assets including equities, debt securities and derivatives to support its Group capital strategies and its Wealth Management book and client loans. The Group enters into derivatives on behalf of Wealth Management clients to enable them to participate in the derivatives market, referred to as 'client facilitation' (see note 21).

The Group initially records all financial assets at fair value, which is the cost of acquiring the asset or, in the case of loans, the amount loaned to clients. The Group holds each financial asset either at fair value ('fair value through profit or loss' and 'available-for-sale') or at amortised cost ('held to maturity' and 'loans and receivables'). Fair value is explained on the following page. Amortised cost is the basis of moving the initial amount of the financial instrument (normally fair value) to the maturity value on a systematic basis using a fixed interest rate (effective interest rate) taking account of repayment dates and initial premiums or discounts. The carrying value of amortised cost financial instruments is adjusted for impairments. Impairment is normally determined based on a realistic assessment of future cash flows discounted using the original effective interest rate compared with contractual amounts.

### Hedge accounting

Where derivatives are held for risk management purposes, the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives and its strategy for undertaking the various hedging transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of hedged items.

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Such accounting considerations are only required for available-for-sale hedged items which otherwise would be recorded in other comprehensive income. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting or the instrument is derecognised.

In respect of hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. The ineffective portion is recognised in the income statement. On disposal of the foreign operation, the gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

| | 2013 | | |
|---|---|---|---|
| | Listed £m | Unlisted £m | Total £m |
| **Non-current** | | | |
| Held to maturity | 20.7 | – | 20.7 |
| Loans and receivables | – | 320.3 | 320.3 |
| Fair value through profit or loss – derivatives | – | 3.3 | 3.3 |
| Fair value through profit or loss – other investments | – | 34.4 | 34.4 |
| Available-for-sale | 28.5 | 15.7 | 44.2 |
| **Total non-current** | **49.2** | **373.7** | **422.9** |
| | | | |
| **Current** | | | |
| Held to maturity | 121.1 | – | 121.1 |
| Loans and receivables | – | 377.9 | 377.9 |
| Fair value through profit or loss – derivatives | – | 17.6 | 17.6 |
| Fair value through profit or loss – other investments | 334.4 | 295.5 | 629.9 |
| Available-for-sale | 74.8 | 21.6 | 96.4 |
| **Total current** | **530.3** | **712.6** | **1,242.9** |
| | | | |
| **Total financial assets** | **579.5** | **1,086.3** | **1,665.8** |

# Notes to the accounts

## 11. Financial assets continued

| | 2012 | | |
|---|---|---|---|
| | Listed £m | Unlisted £m | Total £m |
| **Non-current** | | | |
| Held to maturity | 16.3 | – | 16.3 |
| Loans and receivables | – | 412.3 | 412.3 |
| Fair value through profit or loss – derivatives | – | 4.9 | 4.9 |
| Fair value through profit or loss – other investments | – | 33.8 | 33.8 |
| Available-for-sale | 30.8 | 15.8 | 46.6 |
| **Total non-current** | **47.1** | **466.8** | **513.9** |
| **Current** | | | |
| Held to maturity | 101.4 | – | 101.4 |
| Loans and receivables | – | 486.1 | 486.1 |
| Fair value through profit or loss – derivatives | – | 25.1 | 25.1 |
| Fair value through profit or loss – other investments | 247.7 | 407.8 | 655.5 |
| Available-for-sale | 214.0 | 23.8 | 237.8 |
| **Total current** | **563.1** | **942.8** | **1,505.9** |
| **Total financial assets** | **610.2** | **1,409.6** | **2,019.8** |

### Fair value measurements

The Group holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is reflected in the fair value measurements section below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market bid prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies. For private equity investments where there is no quoted market price, fair value is determined with reference to International Private Equity and Venture Capital (IPEVC) Valuation Guidelines and by independent professional valuers.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These 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 quoted equities, daily-priced funds, gilts 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 included within Level 1 for the asset or liability and principally comprise corporate bonds and foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on a compilation of primarily observable market information or industry standard calculations, utilising vendor feed data and information readily available via external sources. For funds not priced on a daily basis, e.g. property funds, 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 and principally comprise investments in private equity and hedge funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers. Venture capital funds are valued based on the best available IPEVC valuation information. The most recent available valuation data is used and adjusted for known events such as calls or distributions. The valuation review is a continual process throughout the year.

The fair value of financial assets classified as held to maturity (derived from level 1 inputs) and loans and receivables (derived from level 2 inputs) was £871.0 million (2012: £1,017.4 million).

## 11. Financial assets continued

The Group's financial assets held at fair value (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Non-current financial assets:** | | | | |
| Equities | 4.0 | 4.0 | 33.5 | 41.5 |
| Debt securities | 0.3 | 2.5 | – | 2.8 |
| Derivative contracts | – | 3.3 | – | 3.3 |
| Other instruments | – | 34.3 | – | 34.3 |
| | **4.3** | **44.1** | **33.5** | **81.9** |
| **Current financial assets:** | | | | |
| Equities | 184.7 | 61.6 | 2.3 | 248.6 |
| Debt securities | 279.4 | 194.9 | – | 474.3 |
| Derivative contracts | 3.4 | 11.2 | 3.0 | 17.6 |
| Other instruments | – | 3.4 | – | 3.4 |
| | **467.5** | **271.1** | **5.3** | **743.9** |
| | | | | |
| | **471.8** | **315.2** | **38.8** | **825.8** |

Financial assets with a fair value of £27.2 million were transferred from level 2 to level 1 during the period. The transfers relate primarily to a change in methodology in allocating certain fixed income securities where valuations are sourced from tradeable broker quotes.

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Non-current financial assets:** | | | | |
| Equities | 3.4 | 4.5 | 40.6 | 48.5 |
| Debt securities | 0.3 | 2.7 | – | 3.0 |
| Derivative contracts | – | 4.9 | – | 4.9 |
| Other instruments | – | 28.9 | – | 28.9 |
| | **3.7** | **41.0** | **40.6** | **85.3** |
| **Current financial assets:** | | | | |
| Equities | 269.4 | 23.3 | 16.0 | 308.7 |
| Debt securities | 390.0 | 190.5 | – | 580.5 |
| Derivative contracts | 0.5 | 21.8 | 2.8 | 25.1 |
| Other instruments | – | 4.1 | – | 4.1 |
| | **659.9** | **239.7** | **18.8** | **918.4** |
| | | | | |
| | **663.6** | **280.7** | **59.4** | **1,003.7** |

Movements in financial assets categorised as Level 3 during the year were:

| | 2013 £m | 2012 £m |
|---|---|---|
| At 1 January | 59.4 | 166.7 |
| Exchange translation adjustments | 0.6 | (2.6) |
| Total realised gains/(losses) recognised in the income statement[1] | 1.2 | (4.8) |
| Total gains recognised in other comprehensive income[2] | 5.1 | 5.0 |
| Additions | 1.7 | 17.9 |
| Disposals | (29.2) | (122.6) |
| Transfers out of level 3 | – | (0.2) |
| **At 31 December** | **38.8** | **59.4** |

1 Within net gains on financial instruments and other income.
2 Within net fair value movement arising from available-for-sale financial assets.

Transfers are assumed to have occurred at the beginning of the period.

Financial report

# Notes to the accounts

## 11. Financial assets continued

### Estimates and judgements

Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of financial assets are discussed below.

### Valuation of financial assets where there is no quoted price

Such assets principally consist of investments in private equity, hedge funds, funds of hedge funds and certain loans in Wealth Management. The determination of fair value requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation by the fund manager or adviser. In making this judgement the Group evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

### Impairment of financial assets categorised as available-for-sale, loans and receivables and held to maturity

Such assets are reviewed at the end of each reporting period for impairment. If the year-end fair value of an asset is less than the cost or deemed cost of that asset, the Group will assess whether there is objective evidence that the asset is impaired.

In respect of equity products, consideration is given to the extent to which the fair value of an instrument is below cost and to the length of time that the fair value of an instrument has been below cost.

## 12. Associates and joint ventures

Associates are companies the Group partly owns and over which it has significant influence but not control, through participation in the financial and operating policy decisions. Joint ventures are companies in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. In both cases, the Group's income statement reflects its share of the entity's profit or loss after tax and amortisation of intangible assets, the statement of other comprehensive income records the Group's share of gains and losses arising from the entity's available-for-sale financial assets, the statement of financial position records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase less subsequent amortisation and the statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are reviewed regularly for impairment.

The associates and joint ventures reserve in the statement of changes in equity represents the Group's share of profits in its investments yet to be received (e.g. in the form of dividends or distributions), less any amortisation of intangible assets.

Investments in associates and joint ventures comprise:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Associates £m** | **Joint ventures £m** | **Total £m** | Associates £m | Joint ventures £m | Total £m |
| At 1 January | 77.5 | 1.9 | 79.4 | 56.4 | 2.0 | 58.4 |
| Exchange translation adjustments | (1.9) | 0.1 | (1.8) | (1.7) | (0.1) | (1.8) |
| Additions | 4.9 | 2.9 | 7.8 | 23.3 | – | 23.3 |
| Profit for the year after tax | 5.4 | 0.6 | 6.0 | 3.8 | 0.7 | 4.5 |
| (Losses)/gains recognised in other comprehensive income | (0.9) | – | (0.9) | 1.5 | – | 1.5 |
| Other movements in reserves of associates and joint ventures | (0.9) | – | (0.9) | – | – | – |
| Capital redemptions and distributions of profit | (5.8) | (0.7) | (6.5) | (5.8) | (0.7) | (6.5) |
| At 31 December | **78.3** | **4.8** | **83.1** | **77.5** | **1.9** | **79.4** |

During the year, the Group increased its holding in RWC Partners Limited and acquired an interest in, Secquaero Advisors Limited, an insurance-linked securities investment management business based in Switzerland.

Information about the principal associates and joint ventures held by the Group at 31 December 2013 is shown on the following page. The companies are unlisted.

## 12. Associates and joint ventures continued

| Name of associate | Status | Nature of its business | Country of incorporation | Class of share | Percentage owned by the Group |
|---|---|---|---|---|---|
| Schroder Ventures Investments Limited (SVIL) | Associate | Private equity investment | Guernsey | Ordinary, deferred and redeemable preference shares | 50%* |
| RWC Partners Limited (RWC) | Associate | Investment management | England | Ordinary shares | 51% |
| Bank of Communications Schroder Fund Management Co. Ltd. (BoCom) | Associate | Investment management | China | Ordinary shares | 30% |
| Axis Asset Management Company Limited (Axis) | Associate | Investment management | India | Ordinary shares | 25% |

* The Group holds 50% of each class of share.

The financial statements of SVIL are prepared to 30 June each year. Accounts are prepared to this date so that the company's year end is the same as those of its major investments. For the purposes of applying the equity method of accounting, the interim financial statements of SVIL at 31 December have been used.

Although the Group owns 51 per cent. (2012: 48 per cent.) of the issued share capital of RWC, its voting power is limited to 49 per cent. For this, and other accounting reasons, the Group considers that the investment is an associate.

In 2013 the Bank of Communications Schroders Fund Management Co. Ltd (BoCom) was reclassified from a joint venture to an associate. The Group has updated its assessment of the substance of its agreements with its joint ventures and associates and believes that significant influence rather than joint control existed. As a result, comparative data has been amended to reflect the reclassification.

### Associates

Summarised financial information in respect of the Group's associates is set out below:

| | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **SVIL £m** | **RWC £m** | **BoCom £m** | **Axis £m** | **Total £m** | SVIL £m | RWC £m | BoCom £m | Axis £m | Total £m |
| Total assets | 10.4 | 22.5 | 150.9 | 12.2 | 196.0 | 12.1 | 13.2 | 139.3 | 10.0 | 174.6 |
| Total liabilities | (1.4) | (10.0) | (26.6) | (6.7) | (44.7) | (1.4) | (4.3) | (23.0) | (3.9) | (32.6) |
| **Total equity** | **9.0** | **12.5** | **124.3** | **5.5** | **151.3** | **10.7** | **8.9** | **116.3** | **6.1** | **142.0** |
| Group's share of net assets | 4.5 | 6.4 | 37.3 | 1.4 | 49.6 | 5.3 | 4.2 | 34.9 | 1.5 | 45.9 |
| Goodwill and intangible assets | – | 12.1 | – | 16.6 | 28.7 | – | 10.6 | – | 21.0 | 31.6 |
| **Carrying value held by the Group** | **4.5** | **18.5** | **37.3** | **18.0** | **78.3** | **5.3** | **14.8** | **34.9** | **22.5** | **77.5** |
| Net revenue | 3.0 | 19.6 | 80.9 | 8.8 | 112.3 | (0.7) | 12.1 | 48.3 | 1.6 | 61.3 |
| Profit/(loss) for the year | 2.8 | 0.6 | 19.7 | – | 23.1 | (1.0) | 0.8 | 13.7 | – | 13.5 |
| **Group's share of profit/(loss) for the year before amortisation** | **1.4** | **0.3** | **5.9** | – | **7.6** | **(0.5)** | **0.4** | **4.1** | – | **4.0** |
| Amortisation charge | – | – | – | (2.2) | (2.2) | – | – | – | (0.2) | (0.2) |
| **Group's share of profit/(loss) for the year** | **1.4** | **0.3** | **5.9** | **(2.2)** | **5.4** | **(0.5)** | **0.4** | **4.1** | **(0.2)** | **3.8** |

## 13. Property, plant and equipment

The Group's long-life assets provide the infrastructure to enable the Group to operate. These principally comprise computer equipment and leasehold improvements. The cost of these assets is recognised in the income statement over time as a depreciation charge. The assets are normally depreciated over three to five years.

| | 2013 £m | 2012 £m |
|---|---|---|
| **Cost** | | |
| At 1 January | 85.3 | 83.3 |
| Exchange translation adjustments | (1.4) | (1.5) |
| Acquired as part of business combinations | 2.1 | – |
| Additions | 13.5 | 6.1 |
| Disposals | (3.0) | (2.6) |
| **At 31 December** | **96.5** | **85.3** |
| **Accumulated depreciation** | | |
| At 1 January | (70.3) | (67.1) |
| Exchange translation adjustments | 0.8 | 0.9 |
| Depreciation charge for the year | (6.8) | (6.7) |
| Disposals | 2.3 | 2.6 |
| **At 31 December** | **(74.0)** | **(70.3)** |
| **Net book value at 31 December** | **22.5** | **15.0** |

## 14. Goodwill and intangible assets

Intangible assets (other than software) arise when the Group acquires a business and the fair value paid exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the business. Intangible assets include contractual agreements to manage client funds and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are recorded as intangible assets arising from business combinations and charged to the income statement over time.

Consideration paid to acquire the business in excess of the acquisition date fair value of net tangible and intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. After acquisition, the business is normally integrated fully into the existing Group. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant business segment as a whole.

Software purchased for use in the business is also referred to as an intangible asset. The cost of purchasing software is taken to the income statement over time as an amortisation charge. The treatment is similar to property, plant and equipment and the asset is normally amortised evenly over three to five years.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Goodwill £m** | **Acquired intangible assets £m** | **Software £m** | **Total £m** | Goodwill £m | Acquired intangible assets £m | Software £m | Total £m |
| **Cost** | | | | | | | | |
| At 1 January | 117.2 | 23.9 | 64.0 | 205.1 | 120.4 | 24.5 | 57.9 | 202.8 |
| Exchange translation adjustments | (2.3) | (1.4) | (0.1) | (3.8) | (3.2) | (0.6) | (0.5) | (4.3) |
| Additions* | 242.1 | 112.5 | 14.7 | 369.3 | – | – | 6.7 | 6.7 |
| Disposals | – | – | – | – | – | – | (0.1) | (0.1) |
| **At 31 December** | **357.0** | **135.0** | **78.6** | **570.6** | **117.2** | **23.9** | **64.0** | **205.1** |
| **Accumulated amortisation** | | | | | | | | |
| At 1 January | – | (21.3) | (41.7) | (63.0) | – | (19.7) | (39.0) | (58.7) |
| Exchange translation adjustments | – | 0.3 | 0.1 | 0.4 | – | 0.6 | 0.3 | 0.9 |
| Amortisation charge for the year | – | (13.3) | (5.7) | (19.0) | – | (2.2) | (3.1) | (5.3) |
| Disposals | – | – | – | – | – | – | 0.1 | 0.1 |
| **At 31 December** | **–** | **(34.3)** | **(47.3)** | **(81.6)** | **–** | **(21.3)** | **(41.7)** | **(63.0)** |
| **Carrying amount at 31 December** | **357.0** | **100.7** | **31.3** | **489.0** | **117.2** | **2.6** | **22.3** | **142.1** |

* See note 28 for information on additions to goodwill and intangible assets arising from business combinations.

Of the total goodwill of £357.0 million (2012: £117.2 million), £288.1 million (2012: £108.1 million) is allocated to Asset Management and £68.9 million (2012: £9.1 million) to Wealth Management. Of the goodwill relating to the acquisition of Cazenove Capital of £222.3 million, £162.3 million has been allocated to Asset Management and £60.0 million to Wealth Management. All of the £19.8 million goodwill relating to the acquisition of STW has been allocated to Asset Management. More information regarding these acquisitions is set out in note 28.

The majority of the Group's intangible assets from business combinations relate to the Cazenove Capital acquisition; the proportion of assets allocated to Asset Management (£34.1 million at the acquisition date) will be charged to the income statement over four years, and the proportion allocated to Wealth Management (£66.7 million at the acquisition date) over eight years.

Estimates and judgements

At each reporting date, an assessment is made as to whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and 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, details of which are provided on the next page. 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, the lowest level of CGU the Group uses to determine impairment is segment level.

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. Goodwill and intangible assets** continued

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which management have based their five-year cash flow projections are market growth rates of 11 per cent. (2012: 11 per cent.), a pre-tax discount rate of 14 per cent. (2012: 13 per cent.), expected fund flows (based on expectations by individual countries); and expected changes to margins (based on an analysis of the current fee structure flexed to take into account expected changes in product mix and the proportion of rebates payable to external distributors). The results of the calculation indicates that goodwill for both CGUs 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 a business segment relative to the size of the segment's future profitability estimate. Movements in the growth rate and/or the discount rate of 1 per cent. would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years reveals that the Group would have recognised no changes (2012: nil) to its goodwill asset in the year as a result of inaccurate projections.

## 15. Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They generally arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Deferred tax liabilities also arise on acquisitions where the amortisation of the acquired intangible asset does not result in a tax deduction. The deferred tax liability is established on acquisition and is released to the income statement to match the intangible asset amortisation.

In respect of assets, the Group only recognises a deferred tax asset when the availability of future profits necessary to support the deferred tax asset is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the year-end date. This rate is also applied to deferred tax liabilities arising on acquisitions.

### (a) Deferred tax assets in respect of temporary differences

| | **2013 £m** | 2012 £m |
|---|---|---|
| At 1 January | 47.8 | 50.1 |
| Acquired in business combinations | (16.2) | – |
| Income statement credit/(charge) | 9.3 | (0.2) |
| Other comprehensive income expense | (0.2) | (4.1) |
| Credit taken to equity | 9.3 | 2.4 |
| Other movements | (1.5) | (0.4) |
| **At 31 December** | **48.5** | 47.8 |

Included in deferred tax assets relating to other temporary differences is an asset relating to UK tax deductions for share-based remuneration which is dependent on the prices of the Company's ordinary and non-voting ordinary shares at the time the awards are exercised. These have been recognised based on the share prices as at 31 December 2013.

A net deferred tax liability of £16.2 million has been recorded in respect of acquisitions in the year. This principally comprises a deferred tax liability in respect of Cazenove Capital intangible assets (see note 28) that will be credited to the income statement in line with the amortisation of those intangible assets. This is required by accounting standards as the amortisation of intangible assets is not tax deductible. Deferred tax assets and liabilities are offset where permitted by accounting standards.

## 15. Deferred tax continued

A deferred tax asset of £19.5 million (2012: £21.5 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the asset could be utilised.

A deferred tax asset of £15.6 million (2012: £15.0 million) relating to losses and other temporary differences has not been recognised as there is insufficient evidence that there will be sufficient taxable profits against which it can be utilised.

The aggregate amount of gross temporary differences arising from unremitted profits in subsidiaries is £7.0 million (2012: £4.1 million). Deferred tax has not been provided as the relevant parent company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### (b) Deferred tax liabilities in respect of temporary differences

| | 2013 £m | 2012 £m |
|---|---|---|
| At 1 January | (1.9) | (2.6) |
| Income statement credit | 0.1 | 0.7 |
| Other movements | 0.1 | – |
| **At 31 December** | **(1.7)** | **(1.9)** |

## 16. Unit-linked liabilities and assets backing unit-linked liabilities

The Group operates a unit-linked life assurance business through the wholly-owned subsidiary, Schroder Pension Management Limited (referred to as 'the Life Company'). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for any insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to a unit trust. The Group earns revenue from managing the investment which is included in net revenue. As it is a life assurance product the contractual rights and obligations of the investments remain with the Group and the AUM is therefore included on the Group's statement of financial position together with the liability to investors. Where the Life Company has a controlling interest in an Authorised Unit Trust (AUT), the AUT is consolidated. The net assets attributable to third-party investors in the AUT are included in unit-linked liabilities.

Financial assets and liabilities held by the Life Company are measured at fair value through profit or loss. Other balances include cash and receivables, which are measured at amortised cost (see note 11). The Life Company's assets are regarded as current assets as they represent the amount available to Life Company investors (or third-party investors in consolidated AUTs) who are able to withdraw their funds on call, subject to certain restrictions in the case of illiquidity. Gains and losses from assets and liabilities held to cover investor obligations are attributable to investors in the Life Company or third-party investors in the consolidated AUT. As a result, any gain or loss is offset by a change in the obligation to investors.

Unit-linked liabilities comprise:

| | 2013 £m | 2012 £m |
|---|---|---|
| Financial liabilities due to Life Company investors | 9,912.0 | 8,384.1 |
| Financial liabilities due to third-party investors* | 1,219.7 | 962.2 |
| | **11,131.7** | **9,346.3** |

* Such liabilities arise in respect of assets controlled by the Group that are beneficially owned by third parties.

The Group has no primary exposure to market risk, credit risk or liquidity risk in relation to the investments of the Life Company. The risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third-party investors in the consolidated AUTs and not by the Life Company itself.

### 16. Unit-linked liabilities and assets backing unit-linked liabilities continued

**Fair value measurements of Life Company financial assets and liabilities**

Each of the Life Company's financial assets and liabilities has been categorised using a fair value hierarchy. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Life Company's financial instruments at the year-end date are analysed as follows:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Financial instruments not at fair value £m | Total £m |
| Assets backing unit-linked liabilities | 9,609.0 | 544.1 | 158.2 | 820.4 | 11,131.7 |
| Unit-linked liabilities | 11,096.6 | 8.5 | – | 26.6 | 11,131.7 |

Within assets backing unit-linked liabilities, £52.9 million was transferred from level 1 to level 2 and £224.0 million was transferred from level 2 to level 1. The transfers from level 1 to level 2 relate primarily to a change in methodology whereby fixed income securities have been allocated to level 2 based on a reassessment of valuation information. The transfers from level 2 to level 1 relate primarily to equities that have returned to daily-priced positions.

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Financial instruments not at fair value £m | Total £m |
| Assets backing unit-linked liabilities | 8,038.0 | 274.7 | 170.7 | 862.9 | 9,346.3 |
| Unit-linked liabilities | 9,326.0 | 16.3 | – | 4.0 | 9,346.3 |

The types of instruments found in each of the above levels for the Life Company are the same as those listed for the non-Life Company instruments in note 11.

Movements in financial assets categorised as Level 3 during the year were:

| | 2013 £m | 2012 £m |
|---|---|---|
| At 1 January | 170.7 | 83.1 |
| Total (losses)/gains recognised in the income statement | (0.7) | 6.8 |
| Additions | 0.6 | 122.1 |
| Disposals | (12.4) | (41.3) |
| **At 31 December** | **158.2** | **170.7** |

## 17. Trade and other payables

Trade and other payables (excluding deferred income) represent amounts the Group is due to pay to third parties in the normal course of business. These include expense accruals as well as settlement accounts (amounts due to be paid for transactions undertaken). Trade creditors are costs that have been billed; accruals represent costs, including remuneration, that are not yet billed or due for payment, but for which the goods or services have been received. Trade and other payables held at fair value comprise deferred cash awards (deferred employee remuneration payable in cash) and bullion deposits by customers.

Deferred income represents fees received in advance of services being performed.

Trade and other payables are initially recorded at fair value, and subsequently at amortised cost or fair value (see note 11), as shown below.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Non-current £m** | **Current £m** | **Total £m** | Non-current £m | Current £m | Total £m |
| **Trade and other payables at amortised cost:** | | | | | | |
| Settlement accounts | – | 170.2 | 170.2 | – | 89.6 | 89.6 |
| Trade creditors | – | 8.1 | 8.1 | – | 11.5 | 11.5 |
| Social security | 18.2 | 48.4 | 66.6 | 17.1 | 30.6 | 47.7 |
| Accruals and deferred income | 8.1 | 363.5 | 371.6 | 9.0 | 280.0 | 289.0 |
| Other payables | 2.9 | 32.1 | 35.0 | 5.4 | 15.0 | 20.4 |
| | **29.2** | **622.3** | **651.5** | **31.5** | **426.7** | **458.2** |
| **Trade and other payables at fair value:** | | | | | | |
| Deferred cash awards | 34.5 | 41.7 | 76.2 | 42.1 | 20.9 | 63.0 |
| Bullion deposits by customers | – | 36.4 | 36.4 | – | 38.1 | 38.1 |
| | **34.5** | **78.1** | **112.6** | **42.1** | **59.0** | **101.1** |
| | | | | | | |
| | **63.7** | **700.4** | **764.1** | **73.6** | **485.7** | **559.3** |

As a result of their short-term nature, the fair value of trade and other payables held at amortised cost approximates to their carrying value. The fair value of bullion deposits by customers is derived from level 1 inputs (see note 11). Deferred cash awards derive their value from the fair value of units in funds to which the value of the employee award is linked (fund awards).

The Group's trade and other payables contractually mature in the following time periods:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Less than 1 year* | 700.4 | 485.7 |
| | | |
| 1 – 2 years | 35.6 | 36.6 |
| 2 – 5 years | 26.4 | 32.7 |
| More than 5 years | 1.7 | 4.3 |
| | **63.7** | **73.6** |
| | | |
| | **764.1** | **559.3** |

* Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 21 (2012: 22) working days.

## 18. Financial liabilities

The Group's financial liabilities principally comprise deposits by Wealth Management clients and banking counterparties. They also include derivatives held for client facilitation in Wealth Management (see note 21), interest rate matching in Wealth Management, and the hedging of risk exposures within investment capital. Client accounts (other than those that are economically hedged for interest rate risk) and deposits by banks are recorded at the value of the amount deposited; other financial liabilities (together with economically hedged customer accounts) are recorded at the fair value of the liability. The fair value measurements section below reflects the level of judgement involved in determining fair value although this does not necessarily indicate that the fair value is more or less likely to equal the actual settlement cost. Liabilities arise from time to time in respect of consolidated funds (consolidation normally occurs when the Group's investment in a fund exceeds 50 per cent. and frequently occurs in respect of seed capital investments). When this happens, the Group accounts for the fund in its statement of financial position as if it were wholly-owned by the Group, but records an additional liability representing the fair value of the proportion of the fund owned by third-party investors. Where the investment is held by the Life Company, the fair value of the proportion of the fund owned by third-party investors is shown as part of the unit-linked liabilities (see note 16).

Financial liabilities are initially recorded at fair value, and subsequently at amortised cost or fair value (see note 11), as shown below.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Non-current £m** | **Current £m** | **Total £m** | Non-current £m | Current £m | Total £m |
| **Financial liabilities at amortised cost:** | | | | | | |
| Client accounts | 237.6 | 2,039.6 | 2,277.2 | 319.5 | 2,166.4 | 2,485.9 |
| Deposits by banks | – | 15.4 | 15.4 | – | 26.1 | 26.1 |
| Loan notes in issue (see note 28) | – | 8.4 | 8.4 | – | – | – |
| | **237.6** | **2,063.4** | **2,301.0** | **319.5** | **2,192.5** | **2,512.0** |
| **Financial liabilities at fair value:** | | | | | | |
| Derivative contracts (see note 21) | 5.2 | 10.6 | 15.8 | 8.0 | 18.7 | 26.7 |
| Other financial liabilities held at fair value through profit or loss | 13.0 | 21.4 | 34.4 | 22.0 | 24.4 | 46.4 |
| | **18.2** | **32.0** | **50.2** | **30.0** | **43.1** | **73.1** |
| | | | | | | |
| | **255.8** | **2,095.4** | **2,351.2** | **349.5** | **2,235.6** | **2,585.1** |

The fair value of financial liabilities held at amortised cost approximates to their carrying value.

Maturity profiles of client accounts and deposits by banks and of derivative contracts can be found in notes 20 and 21 respectively.

### Fair value measurements

The Group holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Group's financial liabilities carried at fair value (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3* £m** | **Total £m** |
| **Non-current financial liabilities:** | | | | |
| Derivative contracts | – | 5.2 | – | 5.2 |
| Other financial liabilities held at fair value through profit or loss | – | 9.7 | 3.3 | 13.0 |
| | – | **14.9** | **3.3** | **18.2** |
| **Current financial liabilities:** | | | | |
| Derivative contracts | 2.5 | 8.1 | – | 10.6 |
| Other financial liabilities held at fair value through profit or loss | 16.3 | 5.1 | – | 21.4 |
| | **18.8** | **13.2** | – | **32.0** |
| | | | | |
| | **18.8** | **28.1** | **3.3** | **50.2** |

* The financial liability recorded as level 3 relates to the contingent consideration payable in relation to STW (see note 28).

## 18. Financial liabilities continued

| | 2012 | | |
|---|---|---|---|
| | Level 1 £m | Level 2 £m | Total £m |
| **Non-current financial liabilities:** | | | |
| Derivative contracts | – | 8.0 | 8.0 |
| Other financial liabilities held at fair value through profit or loss | – | 22.0 | 22.0 |
| | **–** | **30.0** | **30.0** |
| **Current financial liabilities:** | | | |
| Derivative contracts | 1.0 | 17.7 | 18.7 |
| Other financial liabilities held at fair value through profit or loss | 16.6 | 7.8 | 24.4 |
| | **17.6** | **25.5** | **43.1** |
| | | | |
| | **17.6** | **55.5** | **73.1** |

## 19. Provisions and contingent liabilities

Provisions are liabilities where there is uncertainty over the timing or amount of settlement and therefore usually require the use of estimates. They are recognised when three conditions are fulfilled: when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will incur a loss in order to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. They are recorded at the Group's best estimate of the cost of settling the obligation. Any differences between those estimates and the amounts for which the Group actually becomes liable are taken to the income statement as additional charges where the Group has underestimated and credits where the Group has overestimated. Where the estimated timing and settlement is longer-term the amount is discounted using a rate reflecting specific risks associated with the provision.

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the statement of financial position.

### (a) Provisions

| | **Dilapidations and onerous leases £m** | **Legal and regulatory £m** | **Total £m** |
|---|---|---|---|
| At 1 January 2013 | 12.1 | 51.9 | 64.0 |
| Exchange translation adjustments | (0.2) | 0.8 | 0.6 |
| Provisions acquired as part of business combinations | 1.4 | – | 1.4 |
| Provisions utilised | (2.0) | (29.1) | (31.1) |
| Additional provisions charged in the year | 0.8 | 20.4 | 21.2 |
| Unused amounts reversed in the year | – | (4.9) | (4.9) |
| **At 31 December 2013** | **12.1** | **39.1** | **51.2** |
| | | | |
| Current – 2013 | 2.1 | 15.7 | 17.8 |
| Non-current – 2013 | 10.0 | 23.4 | 33.4 |
| | **12.1** | **39.1** | **51.2** |
| | | | |
| Current – 2012 | 2.1 | 51.4 | 53.5 |
| Non-current – 2012 | 10.0 | 0.5 | 10.5 |
| | **12.1** | **51.9** | **64.0** |

## 19. Provisions and contingent liabilities continued

The Group's provisions are expected to mature in the following time periods:

| | 2013 £m | 2012 £m |
|---|---|---|
| Less than 1 year | 17.8 | 53.5 |
| | | |
| 1 – 2 years | 26.7 | 3.1 |
| 2 – 3 years | 0.7 | 2.4 |
| 3 – 4 years | 0.8 | 0.9 |
| 4 – 5 years | 0.8 | 0.8 |
| More than 5 years | 4.4 | 3.3 |
| | 33.4 | 10.5 |
| | | |
| | **51.2** | **64.0** |

The provision for dilapidations and onerous leases covers lease commitments with an average maturity of 3.0 years (2012: 4.4 years).

Legal and regulatory obligations associated with the Group's business arise from past events that are estimated to crystallise mainly within two years (2012: one year). These matters are ongoing.

The Group has recorded a £15.0 million provision for a possible penalty payable in connection with the US Department of Justice (DOJ) programme announced on 29 August 2013 that applies industry wide to Swiss banks in order to identify accounts related to clients who may not have been US-tax compliant. The Group's Swiss bank is participating voluntarily in the programme. Where a Swiss bank is unable to provide fully sufficient evidence that a client is compliant, a penalty may be payable. This programme is expected to complete in 2014 or 2015 and there is uncertainty as to the extent of any payment required by Schroders. Details of the programme can be found at the DOJ website.

The Group has established a provision based on a review of relevant accounts which existed on or after 1 August 2008. This review is ongoing. The provision relates principally to closed accounts. There is uncertainty mainly in respect of the range of probabilities applied to relevant accounts which will only become certain following the conclusion of the DOJ's analysis of the Swiss bank's submission of its evidence. As a result, the actual payment is expected to vary from the amount provided.

During the year, the Group has also recorded external insurance recoveries of £7.7 million (2012: £19.6 million), including an estimate of insurance cover that has not yet been settled, in respect of a provision booked in the prior year. At 31 December 2013 £0.4 million (2012: £19.6 million) was recorded in trade and other receivables. The insurance recovery is considered to be virtually certain.

### Estimates and uncertainties

The timing and amount of settlement of each legal claim or potential claim and constructive obligation is uncertain. The Group has performed an assessment of the timing and amount and reviews this assessment periodically. For certain provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from subletting arrangements. Potential legal claims, regulatory related costs and other obligations to third parties arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. In certain circumstances, legal and regulatory claims can arise notwithstanding there has been no error or breach. Our risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and the quantum and timing of that payment. As a result there is also uncertainty over the timing and amount of any insurance recovery, although this does not change the likelihood of insurance cover being available, where applicable. The Group makes periodic assessments of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered in whole or in part by the Group's insurance arrangement. The Group has made provisions based on reasonable expectation of likely outflows. However the results of negotiations and insurance cover may result in different outcomes.

## 19. Provisions and contingent liabilities continued

### b) Contingent liabilities

| | 2013 £m | 2012 £m |
|---|---|---|
| Assets pledged as collateral security | 33.3 | 38.6 |
| Guarantees and irrevocable letters of credit | 34.5 | 37.0 |
| | **67.8** | **75.6** |

Transactions giving rise to contingent liabilities are in Wealth Management and are only entered into by the Group once it has received sufficient high-quality collateral from the client. Assets pledged as collateral security reflect the value of instruments that the Group is required to hold with clearing agents in order to support the execution of the Group's security transactions. The pledged shares provide collateral in the event of the Group not settling trades within agreed time frames.

## 20. Financial instrument risk management

As a result of its operations, the Group is exposed to multiple forms of risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the wellbeing of the Group. This note sets out the nature of the risks and their quantification and management.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of AUM and are therefore impacted by financial instrument risk exposure of our clients – the secondary exposure. This note deals with the primary exposure only.

Financial instruments give rise to market, liquidity and credit risk exposures. Settlement of financial instruments (on both a principal and agency basis) gives rise to operational risk. The execution and effectiveness of the Group's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Board and is then delegated to senior management.

The Audit and Risk Committee provide oversight and the Risk and Compliance functions are responsible for monitoring the overall risk environment. The Group has established a control environment that ensures risks are reviewed regularly and that all risk controls operating throughout the Group are in accordance with regulatory requirements. In addition, an independent assessment of the control environment is provided by Internal Audit.

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third-party investors, consistent with other investment products managed by the Group. However, since the Life Company provides the investment products, both the investments and the third-party obligations are recorded in the statement of financial position. Financial instrument risk management in respect of the Life Company is set out in note 16.

# Notes to the accounts

## 20. Financial instrument risk management continued

### (a) Capital

Total capital comprises:

| | 2013 £m | 2012 £m |
|---|---|---|
| Regulatory capital | 603.0 | 539.0 |
| Other operational capital | 467.2 | 417.9 |
| **Operational capital** | **1,070.2** | **956.9** |
| Investment capital | 677.0 | 926.0 |
| Goodwill, intangible assets (excluding software) and pension scheme surpluses | 521.4 | 187.0 |
| **Total capital** | **2,268.6** | **2,069.9** |

#### (i) Operational capital

Operational capital is the capital required to meet regulatory and working capital requirements. The Group holds surplus capital over the regulatory requirements which is managed by Group Treasury and in-house fund managers.

Regulators oversee the activities and impose minimum capital requirements on the Group's operating subsidiaries. The Group's policy is for subsidiaries to have sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. The Group Capital Committee reviews compliance with this policy.

Schroders plc is regulated by the PRA as a UK consolidated group. Its last submitted capital resources, using the calculation of capital resources required for a Group holding a banking licence, amounted to £1,673 million (2012: £1,547 million) and Pillar 1 minimum capital requirements of £342 million (2012: £316 million).

The Group holds sufficient capital to meet its regulatory capital requirements. All regulated entities within the Group complied with all regulatory capital requirements during the year.

#### (ii) Investment capital

Investment capital is shareholders' investible equity held in excess of operational requirements. It is managed with the aim of achieving a low-volatility cash plus 1.5 per cent. absolute return. It is mainly held in cash deposits, certificates of deposits, commercial paper, government-guaranteed bonds, Schroders' funds and seed capital.

Investment capital is used to seed new investment strategies, co-invest selectively alongside our clients and finance organic and inorganic growth opportunities. Seed capital is deployed principally to support the growth of Asset Management and where practical the market risk on its seed capital investments is hedged. Surplus capital is deployed in accordance with limits approved by the Board.

Investment capital is also held to support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions that will accelerate the development of the business.

## 20. Financial instrument risk management continued

The categorisation of the Group's assets and liabilities (the difference between which represents capital) analysed by accounting treatment is summarised below:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | At fair value through profit or loss | | | | |
| | Loans and receivables/ liabilities at amortised cost £m | Held to maturity £m | Held for trading £m | Designated as at fair value through profit or loss £m | Available-for-sale £m | Non-financial instruments and other £m | Total £m |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 2,522.5 | – | – | – | – | – | 2,522.5 |
| Trade and other receivables | 524.4 | – | – | – | – | 69.8 | 594.2 |
| Financial assets – non debt securities | 601.8 | – | 170.4 | 37.7 | 140.6 | – | 950.5 |
| Financial assets – debt securities | 96.4 | 141.8 | 477.1 | – | – | – | 715.3 |
| Associates and joint ventures | – | – | – | – | – | 83.1 | 83.1 |
| Property, plant and equipment | – | – | – | – | – | 22.5 | 22.5 |
| Goodwill and intangible assets | – | – | – | – | – | 489.0 | 489.0 |
| Deferred tax | – | – | – | – | – | 48.5 | 48.5 |
| Retirement benefit scheme surplus | – | – | – | – | – | 63.7 | 63.7 |
| Assets backing unit-linked liabilities | 820.4 | – | – | 10,311.3 | – | – | 11,131.7 |
| **Total assets** | **4,565.5** | **141.8** | **647.5** | **10,349.0** | **140.6** | **776.6** | **16,621.0** |
| **Liabilities** | | | | | | | |
| Trade and other payables | 584.9 | – | – | 76.2 | – | 103.0 | 764.1 |
| Financial liabilities | 2,301.0 | – | 15.8 | 34.4 | – | – | 2,351.2 |
| Current tax | – | – | – | – | – | 46.6 | 46.6 |
| Provisions | 51.2 | – | – | – | – | – | 51.2 |
| Deferred tax | – | – | – | – | – | 1.7 | 1.7 |
| Retirement benefit scheme surplus | – | – | – | – | – | 5.9 | 5.9 |
| Unit-linked liabilities | 26.6 | – | – | 11,105.1 | – | – | 11,131.7 |
| **Total liabilities** | **2,963.7** | **–** | **15.8** | **11,215.7** | **–** | **157.2** | **14,352.4** |
| **Capital** | | | | | | | **2,268.6** |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | At fair value through profit or loss | | | | |
| | Loans and receivables/ liabilities at amortised cost £m | Held to maturity £m | Held for trading £m | Designated as at fair value through profit or loss £m | Available-for-sale £m | Non-financial instruments and other £m | Total £m |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 2,542.8 | – | – | – | – | – | 2,542.8 |
| Trade and other receivables | 349.0 | – | – | – | – | 65.7 | 414.7 |
| Financial assets – non debt securities | 715.5 | – | 102.8 | 33.0 | 284.4 | – | 1,135.7 |
| Financial assets – debt securities | 182.9 | 117.7 | 583.5 | – | – | – | 884.1 |
| Associates and joint ventures | – | – | – | – | – | 79.4 | 79.4 |
| Property, plant and equipment | – | – | – | – | – | 15.0 | 15.0 |
| Goodwill and intangible assets | – | – | – | – | – | 142.1 | 142.1 |
| Deferred tax | – | – | – | – | – | 47.8 | 47.8 |
| Retirement benefit scheme assets | – | – | – | – | – | 67.2 | 67.2 |
| Assets backing unit-linked liabilities | 862.9 | – | – | 8,483.4 | – | – | 9,346.3 |
| **Total assets** | **4,653.1** | **117.7** | **686.3** | **8,516.4** | **284.4** | **417.2** | **14,675.1** |
| **Liabilities** | | | | | | | |
| Trade and other payables | 410.5 | – | – | 63.0 | – | 85.8 | 559.3 |
| Financial liabilities | 2,512.0 | – | 26.7 | 46.4 | – | – | 2,585.1 |
| Current tax | – | – | – | – | – | 40.8 | 40.8 |
| Provisions | 64.0 | – | – | – | – | – | 64.0 |
| Deferred tax | – | – | – | – | – | 1.9 | 1.9 |
| Retirement benefit scheme deficits | – | – | – | – | – | 7.8 | 7.8 |
| Unit-linked liabilities | 4.0 | – | – | 9,342.3 | – | – | 9,346.3 |
| **Total liabilities** | **2,990.5** | **–** | **26.7** | **9,451.7** | **–** | **136.3** | **12,605.2** |
| **Capital** | | | | | | | **2,069.9** |

## 20. Financial instrument risk management continued

### (b) Credit risk, liquidity risk and market risk (the main components of which are pricing, interest rate and foreign exchange risks)

### (i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge an obligation. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within Pricing risk.

The Group has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay, in full, amounts when due. The Group carefully manages its exposure to credit risk by: approving lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for individuals' exposures and sectors; and by taking security. The Group's maximum exposure to credit risk is represented by the carrying value of its financial assets. In addition the Group holds collateral on its loans and advances to clients and certain derivative positions.

A breakdown of the Group's relevant financial assets by credit rating is set out below:

| | Cash and cash equivalents | | Debt securities at amortised cost | | Debt securities at fair value | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Credit rating*: | | | | | | |
| AAA | 470.7 | 848.0 | 84.1 | 63.2 | 96.3 | 210.1 |
| AA+ | 332.9 | 63.0 | 17.4 | – | 126.0 | 1.9 |
| AA | 26.7 | 64.7 | – | 2.5 | 0.2 | 5.9 |
| AA- | 503.9 | 321.0 | 41.3 | 39.9 | 0.1 | 60.0 |
| A+ | 271.2 | 456.5 | 25.6 | 19.0 | 148.5 | 94.2 |
| A | 738.8 | 567.9 | 69.8 | 176.0 | 75.3 | 61.3 |
| A- | 166.8 | 205.7 | – | – | 2.5 | 40.1 |
| Not rated | 11.5 | 16.0 | – | – | 28.2 | 110.0 |
| | **2,522.5** | **2,542.8** | **238.2** | **300.6** | **477.1** | **583.5** |

* Provided by rating agencies.

### Wealth Management activities

All individual facility requests are presented to the relevant Wealth Management credit committees and counterparty exposures against limits are monitored daily. Loans and advances to clients are secured on a range of assets including property (both residential and commercial), cash, client portfolios and insurance policies. There is a policy not to advance client facilities on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply.

Portfolios held as collateral are marked to market daily and positions compared to clients loans. Limits are set for the reduction in market value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are breached so that action can be taken before the outstanding loan balances exceed the fair value of the collateral.

Provisions of £13.0 million (2012: £16.2 million) are held against gross loan and receivables that are recorded at amortised cost.

The amount of change in the year in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is a loss of £0.1 million (2012: £5.6 million) and £5.7 million (2012: £5.6 million) cumulatively. This is due to a shortfall in the value of the collateral held against the loans and receivables.

Wealth Management takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks, central banks, supranational banks and sovereigns.

Debt securities held within the Wealth Management treasury book are classified as loans and receivables or as held to maturity financial assets and are unsecured. Policies covering various counterparty and market risk limits are set by the relevant Wealth Management asset and liability management and credit committees and monitored daily. All instruments held within Wealth Management are rated A- or better investment grade.

### Other activities

Fee debtors and other receivables arise as a result of the Group's Asset Management activities and amounts are monitored regularly. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

## 20. Financial instrument risk management continued

Fee debtors past due but not yet impaired as at 31 December 2013 were £10.0 million (2012: £12.6 million), the majority of which is less than 60 days past due. Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to pay.

The Group seeks to minimise its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach. Within the cash and government bond portfolios, deposits are placed with well-rated banks that have been approved and which are continuously monitored by Group Risk. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Wealth Management entities are invested primarily in current accounts and on deposit with well-rated UK and overseas banks.

### (ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost.

### Wealth Management activities

The principal liquidity risk the Group faces concerns its Wealth Management liabilities. The liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency in the Group's Wealth Management businesses.

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Less than 1 year £m** | **1-2 years £m** | **2-3 years £m** | **3-4 years £m** | **4-5 years £m** | **More than 5 years £m** | **Total £m** |
| **Assets** | | | | | | | |
| Cash | 1,824.9 | – | – | – | – | – | 1,824.9 |
| Loans and advances to clients[1] | 258.3 | 102.8 | 69.7 | 3.1 | 13.1 | 166.0 | 613.0 |
| Debt securities | 237.9 | 20.7 | – | – | – | – | 258.6 |
| Other financial assets | 8.7 | 0.9 | 2.1 | – | 0.7 | 0.4 | 12.8 |
| **Total financial assets** | **2,329.8** | **124.4** | **71.8** | **3.1** | **13.8** | **166.4** | **2,709.3** |
| **Liabilities** | | | | | | | |
| Client accounts | 2,039.5 | 51.6 | 22.1 | 3.1 | 9.6 | 151.3 | 2,277.2 |
| Deposits by banks | 15.4 | – | – | – | – | – | 15.4 |
| Other financial liabilities[2] | 7.6 | 2.1 | 2.8 | – | 9.7 | 0.4 | 22.6 |
| **Total financial liabilities** | **2,062.5** | **53.7** | **24.9** | **3.1** | **19.3** | **151.7** | **2,315.2** |
| **Cumulative gap** | **267.3** | **338.0** | **384.9** | **384.9** | **379.4** | **394.1** | **394.1** |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 year £m | 1-2 years £m | 2-3 years £m | 3-4 years £m | 4-5 years £m | More than 5 years £m | Total £m |
| **Assets** | | | | | | | |
| Cash | 1,745.3 | – | – | – | – | – | 1,745.3 |
| Loans and advances to clients[1] | 276.0 | 88.0 | 106.4 | 48.8 | 167.7 | 20.3 | 707.2 |
| Debt securities | 329.2 | 26.3 | – | – | – | – | 355.5 |
| Other financial assets | 17.1 | 3.2 | 0.2 | 0.2 | – | 1.4 | 22.1 |
| **Total financial assets** | **2,367.6** | **117.5** | **106.6** | **49.0** | **167.7** | **21.7** | **2,830.1** |
| **Liabilities** | | | | | | | |
| Client accounts | 2,166.4 | 66.2 | 57.3 | 26.9 | 3.1 | 166.0 | 2,485.9 |
| Deposits by banks | 26.1 | – | – | – | – | – | 26.1 |
| Other financial liabilities[2] | 24.5 | 9.1 | 7.6 | 1.2 | – | 12.1 | 54.5 |
| **Total financial liabilities** | **2,217.0** | **75.3** | **64.9** | **28.1** | **3.1** | **178.1** | **2,566.5** |
| **Cumulative gap** | **150.6** | **192.8** | **234.5** | **255.4** | **420.0** | **263.6** | **263.6** |

1 Includes loans and advances to customers held at fair value through profit or loss of £37.7 million (2012: £33.0 million).
2 Includes customer accounts held at fair value through profit or loss of £14.9 million (2012: £29.8 million).

## 20. Financial instrument risk management continued

### Other activities

Liquidity risk in the rest of the Group is low. Excluding the Life Company, the Asset Management and Group segment together hold cash of £697.6 million (2012: £797.5 million). The Group's policy is that its subsidiaries should trade solvently and have adequate liquidity for all activities undertaken in the normal course of business. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements. Financial liabilities relating to other operating entities are £36.0 million (2012: £18.6 million), all of which are current.

The Group has a committed loan facility of £50.0 million (2012: £250.0 million) that expires on 30 September 2018 and £8.4 million of loan notes as part of the acquisition of Cazenove Capital that are repayable on 12 July 2018 and subject to early redemption rights.

### (iii) Market risk

The sensitivities to market risk are estimated as follows:

| | | **31 December 2013** | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|---|
| Variable[1] | | **A reasonable change in the variable within the next calendar year %** | **Increase/ (decrease) in post-tax profit £m** | **Increase/ (decrease) in other components of equity £m** | A reasonable change in the variable within the next calendar year % | Increase/ (decrease) in post-tax profit £m | Increase/ (decrease) in other components of equity £m |
| Interest rates[2] | -increase | 0.5 | 4 | – | 0.5 | 4 | – |
| | -decrease | – | – | – | – | – | – |
| US dollar against sterling | -strengthen | 8 | (2) | 17 | 8 | 3 | 18 |
| | -weaken | (6) | 1 | (11) | (6) | (2) | (12) |
| Euro against sterling | -strengthen | 5 | 5 | 7 | 5 | 5 | 6 |
| | -weaken | (6) | (5) | (7) | (8) | (7) | (8) |
| FTSE All Share Index[3] | -increase | 20 | – | 5 | 20 | – | 6 |
| | -decrease | (20) | (1) | (5) | (20) | – | (6) |

1 The underlying assumption is that there is one variable increase/decrease with all other variables held constant.
2 Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.
3 Assumes that changes in the FTSE All Share Index correlate to changes in the fair value of the Group's equity funds.

### Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital as well as some investments held for regulatory capital. However, the more significant risk is the impact on the Group's fee income as this is principally determined on percentages of the fair value of AUM. This risk cannot be easily mitigated but is addressed to some extent by ongoing net new business.

The Group does not hedge exposure to price risk except in respect of seed capital and employee compensation awards in the form of fund awards when it is considered that the amount of risk is material and an effective hedge is available.

The changes used in the sensitivity analysis were provided by the Group's economist team using reasonable assumptions.

### Interest rate risk

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

#### Wealth Management activities

In Wealth Management, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis.

Wealth Management's treasury policy is to manage its interest rate risk by matching funded asset positions and the use of interest rate swaps.

Within Wealth Management, there are sensitivity-based and stress-based models used for monitoring interest rate risk. These involve assessing the impact on the Group's net worth against a prescribed basis point rise in interest rates with extreme scenarios for the stress tests. The impact is calculated regularly for each currency and in aggregate.

## 20. Financial instrument risk management continued

### Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months.

The Group's capital includes investments in government bonds managed by the Group's Fixed Income fund managers. These investments are concentrated in UK issues. Government bonds issued by selected AA+ rated countries can also be held. The fund managers may reduce the average duration with the use of future contracts at their discretion.

### Foreign exchange risk

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

### Wealth Management activities

In Wealth Management, some loans and advances to clients, as well as a proportion of the treasury activities, are undertaken in foreign currencies; however, this is managed on a daily basis to reduce currency exposures to low levels. Limits regarding the amount of foreign currency risk are set by the relevant risk committee and monitored daily.

### Other activities

The Group's policy in relation to revenue, expenditure and capital currency exposure in Asset Management activities is generally not to hedge. The Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered part of the business.

The Group also has exposure to foreign currency through investments in currencies other than sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement as appropriate. The use of such instruments is subject to the approval of the Group Capital Committee.

The Group's gross and net exposure to foreign currencies is set out below:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross exposure £m | Hedged £m | Net exposure £m | Gross exposure £m | Hedged £m | Net exposure £m |
| US dollar | 305 | (107) | 198 | 331 | (122) | 209 |
| Euro | 204 | (74) | 130 | 158 | (59) | 99 |
| Swiss franc | 137 | – | 137 | 141 | – | 141 |
| Australian dollar | 27 | – | 27 | 37 | – | 37 |
| Hong Kong dollar | 39 | – | 39 | 41 | – | 41 |
| Japanese yen | 14 | – | 14 | 30 | (5) | 25 |
| Other | 135 | (20) | 115 | 147 | (13) | 134 |
| **Total currency exposures** | **861** | **(201)** | **660** | **885** | **(199)** | **686** |
| Sterling | 1,408 | 201 | 1,609 | 1,185 | 199 | 1,384 |
| | **2,269** | – | **2,269** | **2,070** | **–** | **2,070** |

# Notes to the accounts

## 21. Derivative contracts
### (a) The Group's use of derivatives

The Group holds derivatives for risk management to assist its Wealth Management clients who wish to buy or sell derivative instruments (client facilitation) and, to a limited extent, within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on receivables and payables in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to establish a new product rather than gain additional market exposure. Equity contracts are also used as a hedge against liabilities relating to remuneration that is deferred and settled in the form of fund awards. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

Risk management: the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal financial instrument risk the Group faces through such use of derivative contracts is credit risk.

Client facilitation: The Group's Wealth Management entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients. In carrying out this business they transact as agent and as principal in financial assets and liabilities in order to meet client facilitation requirements. Wealth Management's policy is to hedge, as appropriate, exchange rate and interest rate risk on its client facilitation positions. This hedging of equal and opposite risks seeks to mitigate market risk, but does not eliminate the possibility of credit risk.

For details of how the Group manages its exposure to credit risk, see (b) below and note 20.

### (b) The derivatives used by the Group

Currency forwards represent commitments to sell or purchase foreign and domestic currency. Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties in accordance with its internal policies and procedures.

Foreign exchange, equity and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Futures contracts are standardised contracts to buy or sell specified items for an agreed price at a specified future date. Contracts are negotiated at a futures exchange which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

## 21. Derivative contracts continued

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values are set out below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Interest rate contracts | 1.5 | (3.6) | 1.9 | (5.1) |
| Forward foreign exchange contracts | 9.0 | (6.0) | 13.8 | (9.7) |
| Equity contracts | 10.3 | (6.2) | 14.3 | (11.9) |
| | **20.8** | **(15.8)** | **30.0** | **(26.7)** |

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Net-settled derivative contracts[1] maturing/repricing[2] in: | | | | |
| Less than 1 year | 8.6 | (4.6) | 11.3 | (9.0) |
| 1 – 3 years | 2.1 | (4.8) | 3.3 | (6.7) |
| 3 – 5 years | 0.7 | – | 0.2 | (1.2) |
| More than 5 years | 0.4 | (0.4) | 1.4 | (0.1) |
| | **11.8** | **(9.8)** | **16.2** | **(17.0)** |
| Gross-settled derivatives[3] maturing/repricing[2] in: | | | | |
| Less than 1 year: | | | | |
| Gross inflows | 545.9 | 434.6 | 752.7 | 605.7 |
| Gross outflows | (541.1) | (435.3) | (745.0) | (606.9) |
| Difference between future contractual cash flows and fair value | 4.2 | (5.3) | 6.1 | (8.5) |
| | **9.0** | **(6.0)** | **13.8** | **(9.7)** |
| | | | | |
| | **20.8** | **(15.8)** | **30.0** | **(26.7)** |

1 Comprise interest rate and equity contracts.
2 Whichever is earlier.
3 Comprise forward exchange contracts.

## 22. Share capital and share premium

Share capital represents the number of issued ordinary and non-voting ordinary shares in Schroders plc multiplied by their par value of £1 each. Share premium substantially represents the aggregate of all amounts that have ever been paid above par value to Schroders plc when it has issued ordinary and non-voting ordinary shares. There are certain circumstances in which the share premium can be reduced but these have not arisen in 2013 or 2012. The Company has no authority to issue or cancel ordinary shares in issue (including those held in trust) and has authority limited by shareholder resolution to issue and purchase non-voting ordinary shares, which may either be cancelled or held in treasury.

| | Number of shares Millions | Ordinary shares £m | Non-voting ordinary shares £m | Total shares £m | Share premium £m |
|---|---|---|---|---|---|
| At 1 January 2013 | 282.5 | 226.0 | 56.5 | 282.5 | 90.1 |
| Shares issued | 1.8 | – | 1.8 | 1.8 | 29.3 |
| Shares cancelled | (1.6) | – | (1.6) | (1.6) | – |
| **At 31 December 2013** | **282.7** | **226.0** | **56.7** | **282.7** | **119.4** |

| | Number of shares Millions | Ordinary shares £m | Non-voting ordinary shares £m | Total shares £m | Share premium £m |
|---|---|---|---|---|---|
| At 1 January 2012 | 282.5 | 226.0 | 56.5 | 282.5 | 87.8 |
| Shares issued | 0.5 | – | 0.5 | 0.5 | 2.3 |
| Shares cancelled | (0.5) | – | (0.5) | (0.5) | – |
| **At 31 December 2012** | **282.5** | **226.0** | **56.5** | **282.5** | **90.1** |

## 22. Share capital and share premium continued

| | 2013 Millions | 2012 Millions |
|---|---|---|
| Issued and fully paid: | | |
| Ordinary shares of £1 each | 226.0 | 226.0 |
| Non-voting ordinary shares of £1 each | 56.7 | 56.5 |
| | **282.7** | **282.5** |

In July 2013, 1.7 million non-voting ordinary shares were issued to one of the Group's Employee Benefit Trusts in respect of awards under the Restricted and Growth Share Plan for Cazenove Capital employees (see note 27(e)) that were required to be settled through a new issue of non-voting ordinary shares. A further 0.1 million non-voting ordinary shares were issued to satisfy share option exercises. By the year end, 1.6 million non-voting ordinary shares that had principally been bought back in the year were cancelled.

### The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

## 23. Own shares

Own shares are recorded by the Group when the Group itself owns shares in Schroders plc either directly or through employee benefit trusts. There are two main reasons why this may happen: first, it enables the Group to meet share-based remuneration awards to employees in the form of shares (see note 27) in a way that does not dilute the percentage holdings of existing shareholders. Second, the Group may wish to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Own shares are held at cost and their purchase reduces the Group's net assets by the amount spent. When shares vest unconditionally or are cancelled, they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements during the year were as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| At 1 January | (165.1) | (172.5) |
| Own shares acquired | (142.3) | (41.7) |
| Cancellations of own shares held in treasury | 30.8 | 5.6 |
| Awards vested | 46.7 | 43.5 |
| **At 31 December** | **(229.9)** | **(165.1)** |

The Group purchased its own shares during the year in order to hedge share-based awards made and also to buy back shares for cancellation to counteract the effect of having issued 1.7 million shares in July 2013 in respect of the Cazenove Capital acquisition (see note 22). Shares purchased as a result of the July 2013 issue (see note 22) and those previously held in treasury and not required to hedge employee share options, were cancelled during the year.

## **23. Own shares** continued

Own shares held by the Group comprise:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **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 held within trusts | 2.8 | 12.2 | 15.0 | 3.0 | 11.6 | 14.6 |
| Non-voting ordinary shares held within trusts | 0.4 | 1.7 | 2.1 | 0.6 | 0.2 | 0.8 |
| Non-voting ordinary shares held as treasury shares* | – | – | – | – | 0.1 | 0.1 |
| | **3.2** | **13.9** | **17.1** | **3.6** | **11.9** | **15.5** |

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Vested shares £m** | **Unvested shares £m** | **Total £m** | Vested shares £m | Unvested shares £m | Total £m |
| Ordinary shares held within trusts: | | | | | | |
| Cost | 40.6 | 200.8 | 241.4 | 39.1 | 162.4 | 201.5 |
| Fair value | 72.2 | 317.6 | 389.8 | 49.8 | 197.5 | 247.3 |
| | | | | | | |
| Non-voting ordinary shares held within trusts: | | | | | | |
| Cost | 4.2 | 29.1 | 33.3 | 6.3 | 1.8 | 8.1 |
| Fair value | 8.1 | 33.7 | 41.8 | 8.3 | 2.0 | 10.3 |
| | | | | | | |
| Non-voting ordinary shares held as treasury shares*: | | | | | | |
| Cost | – | – | – | – | 0.9 | 0.9 |
| Fair value | – | – | – | – | 1.1 | 1.1 |
| | | | | | | |
| **Total:** | | | | | | |
| **Cost** | **44.8** | **229.9** | **274.7** | **45.4** | **165.1** | **210.5** |
| **Fair value** | **80.3** | **351.3** | **431.6** | **58.1** | **200.6** | **258.7** |

* Non-voting ordinary shares held as treasury shares do not vest but are included in unvested shares for presentational purposes only.

During the year 6.8 million own shares were purchased. 5.3 million were held for hedging share-based awards and 1.5 million were placed in treasury and subsequently cancelled, along with 0.1 million treasury shares which had been purchased in prior periods. 3.2 million shares awarded to employees vested in the period and were transferred out of own shares.

# Notes to the accounts

## 24. Reconciliation of net cash from operating activities

This note should be read in conjunction with the cash flow statement. It provides a reconciliation to show how operating profit, which is based on accounting rules, translates to cash flows.

| | 2013 £m | 2012 £m |
|---|---|---|
| **Operating profit** | **429.8** | **343.7** |
| | | |
| **Adjustments for income statement non-cash movements:** | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 25.8 | 12.0 |
| Net gains and impairments taken through the income statement on financial instruments | (16.7) | (22.0) |
| Share-based payments | 56.6 | 45.3 |
| Charge for provisions net of releases | 16.3 | 17.2 |
| Other non-cash movements | 3.9 | 4.0 |
| | **85.9** | **56.5** |
| **Adjustments for statement of financial position movements:** | | |
| Decrease in trade and other receivables | 44.7 | 82.5 |
| Decrease in trade and other payables, financial liabilities and provisions | (218.9) | (58.5) |
| | **(174.2)** | **24.0** |
| **Adjustments for Life Company movements:** | | |
| Net increase in assets backing unit-linked liabilities | (1,828.7) | (554.2) |
| Net increase in unit-linked liabilities | 1,785.4 | 701.1 |
| | **(43.3)** | **146.9** |
| | | |
| **Tax paid** | **(93.9)** | **(81.6)** |
| **Interest paid** | **(0.2)** | **(0.3)** |
| | | |
| **Net cash from operating activities** | **204.1** | **489.2** |

Net cash from operating activities includes cash outflows of £14.6 million in respect of exceptional items.

## 25. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but which do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact on the Group's financial results for the year.

The Group leases office space and equipment. Lease agreements can commit the Group to significant future expenditure and the table below discloses the Group's commitments to make such payments. Such commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate.

The Group sublets a small number of its leased properties where such properties, or parts of such properties, are no longer required for use by the Group. The table below discloses the commitments sublessees have made in respect of such arrangements. These commitments are not recorded on the statement of financial position in advance of the period to which they relate. However, they may be used to determine the onerous lease provision if the rental income does not equal or exceed the Group's own rental obligation (see note 19). Rental income for each year is recorded in the income statement as it is earned.

| | **2013** | | | |
|---|---|---|---|---|
| | **No later than 1 year £m** | **Later than 1 year and no later than 5 years £m** | **Later than 5 years £m** | **Total £m** |
| Operating leases as lessee | 34.8 | 97.8 | 352.8 | 485.4 |
| Undrawn loan facilities | 13.2 | 7.6 | – | 20.8 |
| Investment call commitments | 29.5 | – | – | 29.5 |
| **Total commitments** | **77.5** | **105.4** | **352.8** | **535.7** |
| | | | | |
| Operating leases receivable as lessor | (4.5) | (7.9) | (1.1) | (13.5) |
| **Net commitments payable** | **73.0** | **97.5** | **351.7** | **522.2** |

| | 2012 | | | |
|---|---|---|---|---|
| | No later than 1 year £m | Later than 1 year and no later than 5 years £m | Later than 5 years £m | Total £m |
| Operating leases as lessee | 33.5 | 90.7 | 79.5 | 203.7 |
| Undrawn loan facilities | 7.5 | 4.3 | – | 11.8 |
| Investment call commitments | 28.1 | – | – | 28.1 |
| **Total commitments** | **69.1** | **95.0** | **79.5** | **243.6** |
| | | | | |
| Operating leases receivable as lessor | (3.7) | (9.3) | – | (13.0) |
| **Net commitments payable** | **65.4** | **85.7** | **79.5** | **230.6** |

In December 2013, the Group entered into an agreement to lease premises in the City of London. The table above reflects the expectation that the lease will commence in 2017.

Leases in respect of office properties are negotiated for a weighted average term of 15.3 years (2012: 8.1 years) and rentals are fixed for a weighted average term of 4.5 years (2012: 4.3 years). Leases in respect of office equipment are negotiated for a weighted average term of 1.8 years (2012: 1.1 years) and rentals are fixed for a weighted average term of 1.4 years (2012: 1.1 years).

Office property subleases have a weighted average term of 2.0 years (2012: 2.6 years) and rentals are fixed for a weighted average term of 1.1 years (2012: 2.5 years).

Lease payments recognised as an expense during the year were £33.2 million (2012: £31.7 million).

## 26. Retirement benefit obligations

The Group has two types of pension benefit for employees: defined benefit (DB) where the Group has an obligation to provide participating employees with pension payments that represent a specified percentage of their final salary for each year of service, and defined contribution (DC), where the Group's contribution to an employee's pension is measured as, and limited to, a specified percentage of salary.

Accounting for DB schemes requires an assessment of the likely quantum of future pension payments to be made. If ring-fenced assets are held specifically to meet this cost, the scheme is funded, and if not, it is unfunded. The Group periodically reviews its funded DB schemes using actuarial specialists to assess whether it is on course to meet the expected pension payments that current and former employees are or will be entitled to. In the case of a projected shortfall, a plan must be formulated to reverse the deficit.

The income statement charge or credit represents the sum of pension entitlements earned by employees in the period, plus a notional net interest charge (if the scheme is in deficit) or income (if it is in surplus) based on the market yields on high-quality corporate bonds. Experience differences, principally the difference between actual investment returns and the notional interest amount, as well as actuarial changes in estimating the present value of future liabilities, are recorded in other comprehensive income.

Assets or liabilities in the statement of financial position represent the differences between the fair value of plan assets (if any) and the actuarially-determined estimates of the present value of future liabilities. The Group closed its largest DB scheme to future accrual on 30 April 2011, although it still operates some small unfunded schemes overseas. This means that no future service will contribute to the closed scheme member benefits but those members continue to have the benefits determined by the Scheme rules as at 30 April 2011.

The Group's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employment ceases. The income statement charge represents the contributions the Group has agreed to make into employees' pension schemes in that period.

The disclosures within this note are provided mainly in respect of the principal DB scheme in the UK which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme). Certain disclosures are also provided in respect of the Cazenove Capital Management Limited Pension Scheme (the Cazenove Capital Scheme), a funded defined benefit scheme that is closed to future accrual and which provides post-employment benefits to certain current and former employees of Cazenove Capital, and the DC section of the Schroders Retirement Benefits Scheme (the DC section).

The income statement charge for retirement benefit costs is as follows:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Pension costs – defined contribution plans | 30.0 | 27.2 |
| Pension (credit)/charge – defined benefit plans | (1.8) | 0.3 |
| Other post-employment benefits | – | 0.1 |
| | **28.2** | **27.6** |

### (i) Profile of the Scheme

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

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

At 31 December 2012 and 2013, there were no active members in the DB section and 1,598 active members in the DC section (2012: 1,182). The weighted average duration of the Scheme's defined benefit obligation is 21 years (2012: 22 years).

## 26. Retirement benefit obligations continued

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

| | 2013 | 2012 |
|---|---|---|
| Number of deferred members | 1,622 | 1,668 |
| Total deferred pensions (at date of leaving Scheme) | £14.4m per annum | £14.8m per annum |
| Average age (deferred) | 49 | 49 |
| Number of pensioners | 727 | 703 |
| Average age (pensioners) | 68 | 68 |
| Total pensions in payment | £16.4m per annum | £15.7m per annum |

### (ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2011. It disclosed that the market value of the assets of the Scheme represented 101 per cent. of the liabilities at that date, calculated on the funding basis applicable to the Scheme, for the benefits that had accrued to members at that date. No additional funding was required. No contributions were made to the Scheme in the year (2012: nil) and the Group does not expect to make any contributions in 2014.

### (iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes, as detailed below, an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets such as swaps which perform in line with the liabilities of the Scheme so as to protect against inflation and/or interest rates being higher than expected.

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

### Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Group manages this risk by holding 37.5 per cent. of Scheme assets in a liability-driven investment (LDI) portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but which can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

### Credit risk

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

### Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2013, the LDI portfolio was designed to mitigate 70 per cent. (2012: 68 per cent.) of the Scheme's exposure to changes in gilt yields.

### Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against inflation). The majority of the growth assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2013, the LDI portfolio was designed to mitigate 70 per cent. (2012: 68 per cent.) of the Scheme's exposure to inflation risk.

### Life expectancy

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

# Notes to the accounts

## 26. Retirement benefit obligations continued

### (iv) Reporting at 31 December 2013

The principal financial assumptions used for the Scheme were as listed below. These assumptions were not materially different from those used for the valuation of the Cazenove Capital Scheme.

| | 2013 % | 2012 % |
|---|---|---|
| Discount rate | 4.5 | 4.6 |
| RPI inflation rate | 3.7 | 3.3 |
| CPI inflation rate | 2.7 | 2.7 |
| Future pension increases (for benefits earned before 13 August 2007) | 3.5 | 3.2 |
| Future pension increases (for benefits earned after 13 August 2007) | 2.3 | 2.2 |
| Average number of years a current pensioner is expected to live beyond age 60: | | |
| Men | 29 | 29 |
| Women | 31 | 31 |
| Average number of years future pensioners currently aged 45 are expected to live beyond age 60: | | |
| Men | 31 | 31 |
| Women | 33 | 33 |

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

Estimates and judgements

Assumptions made on expected mortality rates 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 1.5 per cent. per annum. Mortality tables for female pensioners are scaled back by 5 per cent. to reflect the history of longer life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2013.

The amounts recognised in the income statement are:

| | 2013 £m | 2012 £m |
|---|---|---|
| **Income statement credit in respect of defined benefit plans consists of:** | | |
| Interest income on Scheme assets | (35.2) | (33.3) |
| Interest cost on Scheme liabilities | 32.1 | 32.1 |
| **Total interest income recognised in the income statement in respect of the Scheme** | **(3.1)** | **(1.2)** |
| Income statement charges in respect of other defined benefit schemes | 1.3 | 1.5 |
| **Total defined benefit schemes income statement (income)/expense** | **(1.8)** | **0.3** |

## 26. Retirement benefit obligations continued

The amounts recognised in the statement of comprehensive income are:

| | 2013 £m | 2012 £m |
|---|---|---|
| **Other comprehensive loss/(income) consists of:** | | |
| Return on Scheme assets (in excess of)/below that recognised in interest income | (22.3) | 1.9 |
| Actuarial gains due to change in demographic assumptions | (8.6) | (9.0) |
| Actuarial losses/(gains) due to change in financial assumptions | 41.1 | (4.7) |
| Actuarial (gains)/losses due to experience | (1.3) | 1.5 |
| **Total other comprehensive loss/(income) in respect of the Scheme** | **8.9** | **(10.3)** |
| Other comprehensive loss/(income) in respect of other defined benefit schemes | 0.9 | (0.1) |
| **Total other comprehensive loss/(income) in respect of defined benefit schemes** | **9.8** | **(10.4)** |

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

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| **Assumption** | **Assumption change** | **Estimated reduction in pension liabilities £m** | **Estimated reduction in pension liabilities %** | Estimated reduction in pension liabilities £m | Estimated reduction in pension liabilities % |
| Discount rate | Increase by 0.5% per annum | 67.6 | 9.0 | 66.3 | 9.4 |
| Expected rate of pension increases in payment | Reduce by 0.5% per annum | 48.0 | 6.4 | 45.8 | 6.5 |
| Life expectancy | Reduce by one year | 21.7 | 2.9 | 19.7 | 2.8 |

The amounts recognised in the statement of financial position in respect of the Scheme and the Cazenove Capital Scheme are:

| | 2013 | | | |
|---|---|---|---|---|
| | **The Scheme £m** | **Cazenove Capital Scheme £m** | **Total £m** | 2012 £m |
| At 1 January | 776.9 | – | 776.9 | 763.8 |
| Acquired* | – | 37.6 | 37.6 | – |
| Interest on assets | 35.2 | 0.8 | 36.0 | 33.3 |
| Remeasurement of assets | 22.3 | (0.2) | 22.1 | (1.9) |
| Benefits paid | (22.3) | (0.9) | (23.2) | (18.3) |
| **Fair value of plan assets** | **812.1** | **37.3** | **849.4** | **776.9** |
| At 1 January | (709.7) | – | (709.7) | (708.1) |
| Acquired* | – | (34.2) | (34.2) | – |
| Interest cost | (32.1) | (0.7) | (32.8) | (32.1) |
| Actuarial gains/(losses) due to change in demographic assumptions | 8.6 | (1.1) | 7.5 | 9.0 |
| Actuarial (losses)/gains due to change in financial assumptions | (41.1) | 0.3 | (40.8) | 4.7 |
| Actuarial gains/(losses) due to experience | 1.3 | (0.2) | 1.1 | (1.5) |
| Benefits paid | 22.3 | 0.9 | 23.2 | 18.3 |
| **Present value of funded obligations** | **(750.7)** | **(35.0)** | **(785.7)** | **(709.7)** |
| **Net asset** | **61.4** | **2.3** | **63.7** | **67.2** |

* The Group acquired Cazenove Capital on 2 July 2013; comparative amounts represent balances and movements in respect of the Scheme only.

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2013, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

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

# Notes to the accounts

## 26. Retirement benefit obligations continued

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Value £m | Of which not quoted in an active market £m | Value £m | Of which not quoted in an active market £m |
| Equity instruments | 32.6 | – | 290.9 | – |
| Liability-driven investments | 304.5 | – | 258.0 | – |
| Bonds (excluding those held as part of the liability-driven investment portfolio) | 100.2 | – | 156.2 | – |
| Portfolio funds | 189.6 | – | – | – |
| Hedge funds | 27.5 | – | 57.9 | – |
| Exchange-traded futures and over the counter derivatives | 136.6 | 58.5 | – | – |
| Cash | 21.1 | – | 13.9 | – |
| | **812.1** | **58.5** | **776.9** | **–** |

During the year, a restructuring of the Scheme's liquid growth assets was initiated which has replaced the majority of the Scheme's directly-held investments and holdings in pooled funds with an investment in the Schroder Life Diversified Growth Fund and a segregated portfolio that aims to provide a total return of capital and growth. It is intended that this restructuring will enable the Scheme to benefit from the economies of scale, broader range of strategies and better liquidity that the unitised vehicle can offer, and the strategy aims at an overall reduction in funding level volatility without a significant decrease in expected returns.

## 27. Share-based payments

Share-based payments are remuneration payments to selected employees that take the form of an award of shares in Schroders plc. Such awards constituted 9.9 per cent. (2012: 9.6 per cent.) of salaries and other remuneration. Employees are generally not able to exercise such awards until three years after the award has been made, although conditions vary between different types of award. Accounting for share-based awards differs from accounting for similar awards settled in cash. The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date or, in the case of grandfathered awards arising on business combinations, the fair value of the share awards at the acquisition date. Such awards can include share options or share awards which may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This fair value is charged to the income statement reflecting benefits received from employment, where relevant, in the performance period and over the vesting period. The income statement charge is offset by a credit to the statement of changes in equity, where the award is expected to be settled through the issue of shares.

The Group may make share-based payments to employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares.

It is our practice to hedge all equity-settled awards to eliminate the impact of changes in the market value of shares.

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

The Group recognised total expenses of £59.8 million (2012: £47.0 million) arising from share-based payment transactions during the year of which £56.6 million (2012: £45.3 million) were equity-settled share-based payment transactions. Included within equity-settled share-based payments were exceptional items of £7.5 million.

The Group has the following share-based payment arrangements (further details of the current schemes may be found in the Remuneration report).

## 27. Share-based payments continued

### (a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. The award is structured as a nil cost option.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Ordinary shares Number Millions** | **Non-voting ordinary shares Number Millions** | Ordinary shares Number Millions | Non-voting ordinary shares Number Millions |
| Rights outstanding at 1 January | 10.7 | 0.7 | 11.0 | 0.7 |
| Granted | 1.7 | 0.1 | 2.7 | 0.1 |
| Forfeited | (0.4) | – | (0.4) | – |
| Exercised | (2.7) | (0.3) | (2.6) | (0.1) |
| **Rights outstanding at 31 December** | **9.3** | **0.5** | **10.7** | **0.7** |
| Vested | 2.4 | 0.4 | 2.9 | 0.6 |
| Unvested | 6.9 | 0.1 | 7.8 | 0.1 |
| Weighted average fair value of share granted (£) | 21.54 | 17.26 | 15.54 | 12.49 |
| Weighted average share price at dates of exercise (£) | 23.13 | 17.21 | 15.37 | 10.64 |

The weighted average exercise price per share is nil.

A charge of £40.7 million (2012: £36.7 million) was recognised during the financial year.

The table below shows the estimated charges for awards issued under the Equity Compensation Plan to be expensed in future years:

| | £m |
|---|---|
| 2014 | 12.2 |
| 2015 | 4.1 |
| 2016 | 0.3 |
| | 16.6 |

### (b) 2008 Equity Incentive Plan

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

| | **2013** | 2012 |
|---|---|---|
| | **Number of ordinary shares Millions** | Number of ordinary shares Millions |
| Rights outstanding at 1 January | 2.4 | 2.2 |
| Granted | 0.6 | 0.2 |
| Forfeited | (0.2) | – |
| Exercised | (0.5) | – |
| **Rights outstanding at 31 December** | **2.3** | **2.4** |
| Vested | 0.4 | – |
| Unvested | 1.9 | 2.4 |
| Weighted average fair value of share granted (£) | 23.96 | 15.18 |
| Weighted average share price at dates of exercise (£) | 24.80 | – |

The weighted average exercise price per share is nil.

## 27. Share-based payments continued

A charge of £3.5 million (2012: £4.5 million) was recognised during the financial year.

The table below shows the estimated charges for awards issued under the Equity Incentive Plan to be expensed in future years:

| | £m |
|---|---|
| 2014 | 5.1 |
| 2015 | 3.9 |
| 2016 | 3.1 |
| 2017+ | 5.2 |
| | **17.3** |

### (c) Long-Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long-Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares on the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year-end date of the extent to which the performance conditions are expected to be met.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number of ordinary shares Millions** | **Number of non-voting ordinary shares Millions** | Number of ordinary shares Millions | Number of non-voting ordinary shares Millions |
| Rights outstanding at 1 January | 1.5 | 0.1 | 1.2 | 0.1 |
| Granted | 0.3 | – | 0.4 | – |
| Forfeited | (0.1) | – | (0.1) | – |
| **Rights outstanding at 31 December – unvested** | **1.7** | **0.1** | **1.5** | **0.1** |
| | | | | |
| Weighted average fair value of share granted (£) | 19.65 | 15.64 | 14.13 | 11.04 |

The weighted average exercise price per share is nil.

A charge of £4.4 million (2012: £3.6 million) was recognised during the financial year.

The table below shows the estimated charges for awards issued under the Long-Term Incentive Plan to be expensed in future years making reasonable assumptions about the extent to which performance conditions are likely to be met:

| | £m |
|---|---|
| 2014 | 2.9 |
| 2015 | 2.0 |
| 2016 | 1.4 |
| | **6.3** |

### (d) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase up to a maximum of £50 per month.

Pursuant to this plan the Group purchased 24,473 ordinary shares in 2013 (2012: 35,735) at a weighted average share price of £22.79 (2012: £14.47). A charge of £0.5 million (2012: £0.5 million) is expensed over a vesting period of one year.

## 27. Share-based payments continued

### (e) Restricted and Growth Share Plan

Awards under this plan were made by Cazenove Capital Holdings Limited in June 2011 to certain employees. Following the Group's acquisition of Cazenove Capital, the awards have been modified to be settled in ordinary and non-voting ordinary shares of Schroders plc. The awards do not have performance conditions attached and vest in three equal tranches between three and five years from the date of award. In certain circumstances, awards lapse if a participant leaves before the awards vest. The Group does not intend to make any further awards under the Plan. The fair value of awards made under the Plan at the acquisition date is spread over the performance and vesting periods. The fair value attributed to pre-acquisition service is credited to equity and will not be charged to the income statement. The fair value attributed to post-acquisition service is charged to the income statement over the remaining vesting period. Fair value is determined at the date of acquisition of Cazenove Capital and is equal to the amount of consideration paid per share and the conversion factor to the relevant Schroders plc share.

| | 2013 | |
|---|---|---|
| | **Number of ordinary shares Millions** | **Number of non-voting ordinary shares Millions** |
| Rights outstanding at 2 July (acquisition date) | 1.5 | 1.7 |
| Forfeited | – | – |
| Exercised | – | (0.2) |
| **Rights outstanding at 31 December** | **1.5** | **1.5** |
| | | |
| Vested | – | – |
| Unvested | 1.5 | 1.5 |
| | | |
| Weighted average fair value of share at acquisition date (£) | 24.23 | 17.82 |
| Weighted average share price at dates of exercise (£) | 26.45 | 19.91 |

A charge of £7.5 million (2012: nil) was recognised during the financial year. This charge is included within 'Exceptional items'.

The table below shows the estimated charges for awards issued under the Restricted and Growth Share Plan to be expensed in future years:

| | £m |
|---|---|
| 2014 | 12.3 |
| 2015 | 7.0 |
| 2016 | 1.0 |
| | **20.3** |

### (f) Cash-settled share-based awards

The fair value of these awards is determined using the same methods and models used to value the equivalent equity-settled awards. The obligation is recorded within trade and other payables. The fair value of the liability is remeasured at each year-end date and at settlement date.

The Group grants to certain employees cash-settled share-based awards that require the Group to pay the value of the award to the employee on the date of exercise. At 31 December 2013, the total carrying amount of liabilities arising from cash-settled share-based awards was £4.7 million (2012: £4.9 million). The total intrinsic value at 31 December 2013 of liabilities for which the employee's right to cash or other assets had vested was £0.9 million (2012: £2.6 million).

# Notes to the accounts

## 28. Acquisitions

### Cazenove Capital Holdings Limited

On 2 July 2013, the Group acquired 100 per cent. of the issued share capital of Cazenove Capital Holdings Limited, a Jersey-registered holding company of an asset and wealth management group ('Cazenove Capital'), for £385.2 million. The recommended acquisition was announced on 25 March 2013 and was completed by means of a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991.

The acquisition added complementary asset classes in UK and European equities, fixed income and multi-manager. It also materially expanded the Group's scale and capabilities for private clients and charities in the UK. The acquisition contributed £6.9 billion of Asset Management and £13.2 billion of Wealth Management AUM.

### STW Fixed Income Management LLC (STW)

On 2 April 2013, the Group acquired 100 per cent. of the net assets of STW, a fixed income fund manager based in the US, for consideration of £34.7 million. The acquisition contributed £7.1 billion of Asset Management AUM and broadened the Group's product and service platform in fixed income and extended our institutional client base in the US.

### Net assets acquired

The fair values of the net assets acquired in the transaction, together with the goodwill and intangible assets arising, are as follows:

| | Cazenove Capital £m | STW £m | Total £m |
|---|---|---|---|
| **Net assets acquired:** | | | |
| Non-current financial assets | 10.3 | 0.1 | 10.4 |
| Cash | 95.4 | 0.3 | 95.7 |
| Trade and other receivables | 119.4 | 3.6 | 123.0 |
| Other assets | 5.3 | – | 5.3 |
| Trade and other payables | (145.2) | (0.8) | (146.0) |
| Other liabilities | (1.9) | – | (1.9) |
| | **83.3** | **3.2** | **86.5** |
| Goodwill | 222.3 | 19.8 | 242.1 |
| Intangible assets | 100.8 | 11.7 | 112.5 |
| Deferred tax arising on intangible assets | (21.2) | – | (21.2) |
| | **385.2** | **34.7** | **419.9** |
| **Satisfied by:** | | | |
| Cash | 129.1 | 31.1 | 160.2 |
| Loan notes issued[1] | 217.1 | – | 217.1 |
| Pre-acquisition share of share-based payment obligations | 39.0 | – | 39.0 |
| Contingent consideration liability[2] | – | 3.6 | 3.6 |
| Total consideration | **385.2** | **34.7** | **419.9** |

1 Following the completion of the Unit Trust rollover set out in the Cazenove Capital recommended offer, £208.7 million of the loan notes issued were redeemed for cash.
2 At the acquisition date, £3.6 million was recognised as contingent consideration. Payment of this amount is contingent upon certain levels of revenue in the two years after the acquisition date. The amount accrued is the maximum payable under the purchase agreement. An estimate of the range of outcomes is that a payment of between £nil and £3.6 million will be payable in 2015.

### Cazenove Capital

The goodwill recognised on the Cazenove Capital acquisition represents the value of the acquired business arising from:
- Talented management and employees;
- Opportunities for synergies from combining operations and Asset Management distribution; and
- A broader platform for business growth.

Intangible assets recognised on the Cazenove Capital acquisition include the value of contractual customer relationships that existed at the acquisition date and the use of the Cazenove name.

In the period between the date of acquisition on 2 July 2013 and 31 December 2013, Cazenove Capital generated net revenue of £99.6 million. The contribution to profit before tax and exceptional items was £58.1 million and exceptional costs of £28.8 million were incurred, including charges in respect of amortisation of acquired intangible assets, integration costs and the Restricted and Growth Share Plan (see note 27(e)). In addition, acquisition costs of £3.9 million were recorded within 'Operating expenses' and classified as exceptional items in the income statement.

**28. Acquisitions** continued

If the acquisition had been completed on 1 January 2013, the Group's net revenue for the period combined with that of the acquiree would have been £1,469.6 million, and the profit before tax and exceptional items for the period on the same basis would have been £521.0 million (profit before tax and after exceptional items: £446.3 million). The post-exceptional figures include deductions for the additional amortisation charges and legacy share-based payments that would have arisen had the acquisition taken place at that date.

STW

The goodwill arising on the STW acquisition is attributable to the anticipated profitability of the business acquired and synergies arising from merging the business with the Group. The intangible asset represents the value attributed to existing contractual arrangements between STW and its clients. The full amount of goodwill is expected to be deductible for tax purposes over a period of fifteen years.

In the period between the date of acquisition (2 April 2013) and 31 December 2013, STW generated net revenue of £10.1 million. The contribution to profit before tax and exceptional items was a loss of £0.1 million and exceptional costs of £5.6 million were incurred, including charges in respect of amortisation of acquired intangible assets, integration costs and deferred cash compensation awards. Costs of acquisition in 2013, recorded within 'Operating expenses' and classified as exceptional items in the income statement, were £0.3 million. A further £1.5 million of acquisition costs were incurred in 2012.

If the acquisition had been completed on 1 January 2013, an aggregation of the Group's net revenue for the period and those of the acquiree would have been £1,411.4 million, and the profit before tax and exceptional items for the period on the same basis would have been £508.8 million (profit before tax and after exceptional items: £448.2 million).

Estimates and judgements

The Group has determined the fair value of the intangible assets acquired as part of its acquisitions based on estimated profits, taking account of synergies, derived from contractual relationships that existed at the acquisition date. This assessment involves judgements and assumptions relating to potential future revenues, 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, has been accounted for as goodwill.

**29. Events after the reporting period**

No events requiring disclosure under IAS 10 occurred after the year-end reporting date.

# Notes to the accounts

## 30. Related party transactions

Transactions between the Group and parties related to the Group are required to be disclosed to the extent that they are necessary for an understanding of the potential effect of the relationship on the financial statements. Other disclosures, such as key management personnel compensation, are also required.

The Group is not deemed to be controlled or jointly controlled by a party directly or through intermediaries. As a result the related parties of the Group are members of the Group, including associates and joint ventures, key management personnel, close family members of key management personnel and any entity controlled by those parties. In addition, the Group manages a number of collective investment vehicles that are deemed to be related parties by virtue of the investment management agreements in place between the Group and these vehicles.

Cash transactions with associates or joint ventures are reported in the cash flow statement and in note 12.

The Group has a total net investment of £92.6 million (2012: £105.2 million) in collective investment vehicles that, by virtue of the investment management agreements in place between the Group and those vehicles, are considered to be related parties. Fee income includes £1,014.8 million (2012: £790.3 million) of fees from those collective investment vehicles and net gains on financial instruments and other income includes gains of £3.0 million (2012: £12.1 million).

£4.8 million (2012: £3.0 million) was held in customer accounts on behalf of related parties. All amounts were payable to key management personnel.

During the year some of the plan assets of the DB section of the Schroders Retirement Benefit Scheme were invested within a Life Company fund managed by the Group. At 31 December 2013, the fair value of these assets was £189.6 million.

In April 2013 the Group increased its shareholding in its associate, RWC Partners Limited (RWC) from 49 per cent. to 55 per cent. through the purchase from Peter Harrison of 176,348 shares at a fair value price of £28 per share. This compares to a price of £24 per share paid in June 2010 for the Group's initial holding of 49 per cent. Since then, RWC's profits have increased by 69 per cent. and assets under management have increased by 220 per cent.

Subsequent to the purchase, the Group's holding in RWC has fallen to 51 per cent. (as set out in note 12) as a result of dilution due to the exercise of employee share options.

Peter Harrison retains an interest in 80,252 shares representing 5.31 per cent. of RWC. He also holds options over a further 20,000 shares.

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

### Key management personnel compensation

Key management personnel are defined as members of the Board or the GMC. The remuneration of key management personnel during the year was as follows:

| Type of remuneration | Typical composition of this type of benefit | 2013 £m | 2012 £m |
|---|---|---|---|
| Short-term employee benefits | Salary, cash bonus | 27.0 | 20.0 |
| Share-based payments | Deferred share awards | 14.7 | 11.8 |
| Other long-term benefits | Other life assurance plans and deferred cash awards | 9.0 | 8.7 |
| Termination benefits | Termination Benefits | 1.0 | – |
| Post-employment benefits | Pension plans | 0.5 | 0.5 |
| | | **52.2** | **41.0** |

The remuneration of key management personnel is based on individual performance and market rates. The remuneration policy (which applies to Directors and management) is described in more detail in the Remuneration report.

## Presentation of the financial statements

Financial information for the year ended 31 December 2013 is presented in accordance with International Accounting Standard (IAS) 1 Presentation of Financial Statements.

The presentation of the income statement has been amended to reflect the inclusion of exceptional items. The policy for exceptional items is set out in note 1(c).

The statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's statement of financial position.

### Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (EU), which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are available-for-sale or held at fair value through profit or loss, and certain deposits both with banks and by customers and banks (including those that relate to bullion).

The Group's principal accounting policies have been consistently applied. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified with background shading in grey. The principal accounting policy and a simplified summary of the relevant note is included in a blue print.

On 1 January 2013, the following Standards and Interpretations were adopted:

| | |
|---|---|
| IAS 1 (Amended) | Presentation of Financial Statements |
| IAS 19 (Amended) | Employee Benefits |
| IFRS 13 | Fair Value Measurement |

IAS 1 (Amended) had no impact on the Group's results, but resulted in a change in presentation in the statement of comprehensive income. IAS 19 (Amended) had no material impact on the Group's results, but resulted in some additional and amended disclosures. IFRS 13 had no impact on the Group's results, but resulted in additional disclosures for financial instruments.

The Group did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year-end date. The following Standards and Interpretations relevant to the Group that had been issued but not yet endorsed by the EU or adopted at the year end were:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 12 | Disclosure of Interests in Other Entities |

IFRS 9 has yet to be endorsed by the EU and replaces the classification and measurement models for financial instruments in IAS 39 with two classification categories: amortised cost and fair value. Equity instruments will be recorded at fair value, with gains or losses reported either in the income statement or through equity. However, where fair value gains and losses are recorded through equity there will no longer be a requirement to transfer gains or losses to the income statement on impairment or disposal.

The expected impact of IFRS 10 is that more funds managed by the Group will be required to be consolidated, resulting in a grossing up of the Group's assets and liabilities by approximately £1.4 billion based on the Group's position as at 31 December 2013, principally within the Life Company. There will be no net impact on either operating profit, profit before tax or net assets.

IFRS 12 will have no impact on the Group's results, but will result in additional disclosures where the Group holds interests in the funds it manages.

No other Standards or Interpretations issued and not yet effective are expected to have an impact on the Group's financial statements.

## Presentation of the financial statements continued

### Basis of consolidation
The consolidated financial information includes the total comprehensive income or losses, the financial position and the cash flows of the Company and its subsidiaries, associates and joint ventures. This includes share ownership trusts established for certain share-based awards. In the case of associates and joint ventures, those entities are presented as single line items in the income statement and statement of financial position (see note 12). Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year-on-year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number and net assets of funds managed by the Group where the shareholding in the year results in control, as defined by IFRS. These include funds held by the Life Company. In such cases, the fund is consolidated and the third-party interest is recorded as a financial liability. This consolidation has no net effect on the income statement. This treatment continues until the Group loses control, as defined by IFRS.

### Net gains and losses on foreign exchange
Many subsidiaries are denominated in currencies other than sterling. The results of these subsidiaries are translated at the average rate of exchange. At the year end, the assets and liabilities are translated at the closing rate of exchange. Gains or losses on translation are recorded in the statement of comprehensive income and as a separate component of equity together with gains or losses on any hedges of overseas operations. Such gains or losses are transferred to the income statement on disposal or liquidation of the relevant subsidiary.

Transactions undertaken in foreign currencies are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year-end date. Any exchange differences arising are included within 'Net gains on financial instruments and other income' in the income statement unless they relate to non-monetary items where such gains or losses are recognised directly in other comprehensive income.

### Estimates and judgements
The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

| | |
|---|---|
| Note 11 | Financial assets |
| Note 14 | Goodwill and intangible assets |
| Note 19 | Provisions and contingent liabilities |
| Note 26 | Retirement benefit obligations |
| Note 28 | Acquisitions |

# Schroders plc
# Statement of financial position

31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 0.1 | 0.1 |
| Trade and other receivables | 33 | 734.6 | 817.8 |
| Retirement benefit scheme surplus | 26 | 61.4 | 67.2 |
| Investments in subsidiaries | 34 | 3,007.0 | 2,585.0 |
| **Total assets** | | **3,803.1** | **3,470.1** |
| **Liabilities** | | | |
| Trade and other payables | 35 | 38.7 | 23.6 |
| Deferred tax | 36 | 5.0 | 9.6 |
| **Total liabilities** | | **43.7** | **33.2** |
| **Net assets** | | **3,759.4** | **3,436.9** |
| **Equity** | | **3,759.4** | **3,436.9** |

The financial statements were approved by the Board of Directors on 5 March 2014 and signed on its behalf by:

**Richard Keers**
Director

**Bruno Schroder**
Director

# Schroders plc
# Statement of changes in equity

Year ended 31 December 2013

| Year ended 31 December 2013 | Notes | Share capital £m | Share premium £m | Own shares £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2013 | | 282.5 | 90.1 | (137.6) | 3,201.9 | 3,436.9 |
| **Profit for the year** | | **–** | **–** | **–** | **439.9** | **439.9** |
| Items not to be reclassified to the income statement: | | | | | | |
| Actuarial losses on defined benefit pension schemes | | – | – | – | (8.9) | (8.9) |
| Tax on items taken directly to other comprehensive income | | – | – | – | (0.4) | (0.4) |
| **Other comprehensive loss** | | **–** | **–** | **–** | **(9.3)** | **(9.3)** |
| Shares issued | 22 | 1.8 | 29.3 | – | – | 31.1 |
| Shares cancelled | 22 | (1.6) | – | – | 1.6 | – |
| Share-based payments | | – | – | – | 50.9 | 50.9 |
| Tax credit in respect of share schemes | | – | – | – | 1.7 | 1.7 |
| Dividends | 9 | – | – | – | (123.5) | (123.5) |
| Own shares purchased net of disposals | 38 | – | – | (67.9) | (0.4) | (68.3) |
| **Transactions with owners** | | **0.2** | **29.3** | **(67.9)** | **(69.7)** | **(108.1)** |
| **Transfers** | | **–** | **–** | **66.9** | **(66.9)** | **–** |
| **At 31 December 2013** | | **282.7** | **119.4** | **(138.6)** | **3,495.9** | **3,759.4** |

| Year ended 31 December 2012 | Notes | Share capital £m | Share premium £m | Own shares £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2012 | | 282.5 | 87.8 | (146.9) | 3,224.4 | 3,447.8 |
| **Profit for the year** | | **–** | **–** | **–** | **81.8** | **81.8** |
| Items not to be reclassified to the income statement: | | | | | | |
| Actuarial gains on defined benefit pension schemes | | – | – | – | 10.3 | 10.3 |
| Tax on items taken directly to other comprehensive income | | – | – | – | (4.0) | (4.0) |
| **Other comprehensive income** | | **–** | **–** | **–** | **6.3** | **6.3** |
| Shares issued | 22 | 0.5 | 2.3 | – | – | 2.8 |
| Shares cancelled | 22 | (0.5) | – | – | 0.5 | – |
| Share-based payments | | – | – | – | 38.2 | 38.2 |
| Tax charge in respect of share schemes | | – | – | – | 0.5 | 0.5 |
| Dividends | 9 | – | – | – | (104.1) | (104.1) |
| Own shares purchased net of disposals | 38 | – | – | (36.4) | – | (36.4) |
| **Transactions with owners** | | **–** | **2.3** | **(36.4)** | **(64.9)** | **(99.0)** |
| **Transfers** | | **–** | **–** | **45.7** | **(45.7)** | **–** |
| **At 31 December 2012** | | **282.5** | **90.1** | **(137.6)** | **3,201.9** | **3,436.9** |

# Schroders plc
# Cash flow statement

| | 2013 £m | 2012 £m |
|---|---|---|
| **Operating profit** | 430.6 | 69.5 |
| **Adjustments for:** | | |
| Decrease in trade and other receivables | 84.0 | 40.9 |
| Increase/(decrease) in trade and other payables | 6.7 | (18.4) |
| Net disposal of financial assets | – | 0.1 |
| Net credit taken in respect of defined benefit pension schemes | (3.1) | (1.2) |
| Share-based payments expensed | 50.9 | 38.2 |
| Amounts received in respect of Group tax relief | 4.1 | 4.9 |
| Interest paid | (1.9) | (2.8) |
| Interest received | 3.0 | 6.5 |
| **Net cash from operating activities** | **574.3** | **137.7** |
| **Cash flows from financing activities** | | |
| Net proceeds from issue of non-voting ordinary shares | 0.6 | 2.8 |
| Acquisition of own shares | (68.3) | (36.4) |
| Dividends paid | (123.5) | (104.1) |
| **Net cash used in financing activities** | **(191.2)** | **(137.7)** |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiaries | (383.1) | – |
| **Net cash used in investing activities** | **(383.1)** | **–** |
| **Net increase in cash and cash equivalents** | **–** | **–** |
| Opening cash and cash equivalents | 0.1 | 0.1 |
| Net increase in cash and cash equivalents | – | – |
| **Closing cash and cash equivalents** | **0.1** | **0.1** |

# Schroders plc
# Notes to the accounts

## 31. Significant accounting policies

The separate financial statements of Schroders plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, and accounting policies have been applied consistently. As permitted by that act, the separate financial statements have been prepared in accordance with IFRS, (as adopted by the European Union (EU)) which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as at 31 December 2013. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition note 34 sets out the accounting policy in respect of investments in subsidiary undertakings.

## 32. Expenses and other disclosures

The auditors' remuneration for audit services to the Company was £0.5 million (2012: £0.6 million). There were no fees relating to further assurance services in the year (2012: nil).

### Key management personnel compensation

The remuneration policy is described in more detail in the Remuneration report. The typical composition of each type of remuneration is the same as that given in note 5. The remuneration of key management personnel during the year was as follows:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Short-term employee benefits | 10.5 | 8.2 |
| Share-based payments | 5.7 | 3.8 |
| Other long-term benefits | 3.9 | 4.8 |
| Post-employment benefits | 0.1 | 0.1 |
| | **20.2** | **16.9** |

## 33. Trade and other receivables

| | **2013 £m** | 2012 £m |
|---|---|---|
| Trade and other receivables held at amortised cost: | | |
| Amounts due from subsidiaries | 732.8 | 816.4 |
| Prepayments and accrued income | 0.3 | 0.7 |
| Other receivables | 1.5 | 0.7 |
| | **734.6** | **817.8** |

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost. All trade and other receivables are due within one year.

Amounts due from subsidiaries include £677.2 million (2012: £775.1 million) of interest-bearing loans and deposits.

## 34. Subsidiary undertakings

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The following information is given in respect of those subsidiary undertakings which, in the opinion of the Directors, principally affect the consolidated profits or assets of the Company or are regulated. The subsidiary entities set out below are all wholly-owned subsidiary undertakings of the Company unless otherwise stated. All undertakings operate in the countries where they are registered or incorporated. Their financial year ends are coterminous with the Company. The primary business of each company is as stated below.

**England**
Cazenove Capital Management Limited[1]
Cazenove Investment Fund Management Limited[1]
Leadenhall Securities Corporation Limited[3]
Schroders NewFinance Capital LLP[1]
Schroder & Co. Limited[2]
Schroder Administration Limited**[4]
Schroder Financial Services Limited[3]
Schroder International Holdings Limited[4]
Schroder Investment Company Limited[3]
Schroder Investment Management Limited[1]
Schroder Investment Management North America Limited[1]
Schroder Investments Limited[1]
Schroder Middle East Limited[1]
Schroder Pension Management Limited[1]
Schroder Property Investment Management Limited[1]
Schroder Unit Trusts Limited[1]

**Argentina**
Schroder Investment Management S.A.[1]

**Australia**
Schroder Investment Management Australia Limited*[1]

**Brazil**
Schroder Investment Management Brasil DTVM S.A.[1]

**Bermuda**
Schroder International Holdings (Bermuda) Limited[4]
Schroders (Bermuda) Limited[4]
Schroders Holdings (Bermuda) Limited[4]

**Cayman Islands**
NewFinance (Cayman) Limited[1]

**Channel Islands**
Burnaby Insurance (Guernsey) Limited[5]
Cazenove Capital Holdings Limited**[4]
Cazenove Capital Management Jersey Limited[2]
Schroder Venture Managers (Guernsey) Limited*[3]
Schroders (C.I.) Limited[2]
Schroder Property Managers (Jersey) Limited[1]
Schroder Investment Company (Guernsey) Limited[3]

**Germany**
Schroder Investment Management GmbH[1]
Schroder Property Investment Management GmbH[1]
Schroder Property Kapitalanlagegesellschaft GmbH[1]
Real Neunzehnte Verwaltungsgesellschaft mbH[1]

**Hong Kong SAR**
Cazenove Capital Management Asia Limited[2]
Schroder Investment Management (Hong Kong) Limited[1]

**Indonesia**
PT Schroder Investment Management Indonesia – 99 per cent.[1]

**Ireland**
Schroder Investment Management (Ireland) Limited[1]

**Italy**
Schroders Italy SIM S.p.A.[2]

**Japan**
Schroder Investment Management (Japan) Limited[1]

**Korea**
Schroders Korea Limited[1]

**Luxembourg**
Schroder Investment Management (Luxembourg) S.A.[1]
Schroder Property Investment Management (Luxembourg) S.à.r.l.[1]

**Mexico**
Schroders S.A. de CV Distribuidora de Acciones de Sociedades de Inversion[1]

**Netherlands**
Schroder International Finance B.V.[4]
Schroder Nederland Finance B.V.[4]

**Singapore**
Schroder & Co. (Asia) Limited[2]
Schroder Investment Management (Singapore) Limited[1]

**Switzerland**
Schroder & Co Bank AG[2]
Schroder Investment Management (Switzerland) AG[1]

**Taiwan**
Schroder Investment Consulting Co. Limited[1]
Schroder Investment Management (Taiwan) Limited[1]

**United States of America**
Schroder Investment Management North America Inc.[1]
Schroder US Holdings Inc.[3]
Schroder Fund Advisers LLC.[1]
STW Fixed Income Management LLC.[1]

* The company also holds preference shares
** Held directly by the Company
1 Asset Management
2 Wealth Management
3 Management of Group investment capital
4 Holding company
5 Captive insurer for the Group

In addition to the subsidiary undertakings listed above, the Company also holds what are deemed to be controlling interests in some of the funds in which it holds investments. These investments are consolidated by the Company but are not individually listed as none of the investments materially affect the profits or net assets of the Company.

The principal associates and joint ventures are set out in note 12.

A full list of subsidiary undertakings, joint ventures and associates will be annexed to the next annual return of Schroders plc to be filed with the Registrar of Companies.

The Company has utilised the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 to not append copies of qualifying partnership accounts to the accounts of any UK subsidiary.

# Schroders plc
# Notes to the accounts continued

## 35. Trade and other payables

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Non-current £m** | **Current £m** | **Total £m** | Non-current £m | Current £m | Total £m |
| Trade and other payables amortised at cost: | | | | | | |
| Social security | 2.2 | 3.8 | 6.0 | 2.1 | 2.1 | 4.2 |
| Accruals | 5.0 | 14.7 | 19.7 | 5.3 | 12.2 | 17.5 |
| Other liabilities | – | 9.6 | 9.6 | – | – | – |
| Amounts owed to subsidiaries | – | 3.4 | 3.4 | – | 1.9 | 1.9 |
| | **7.2** | **31.5** | **38.7** | **7.4** | **16.2** | **23.6** |

The Company's trade and other payables mature in the following time periods:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Less than one year | 31.5 | 16.2 |
| 1 – 2 years | 4.1 | 4.1 |
| 2 – 3 years | 1.7 | 3.1 |
| 3 – 4 years | 1.4 | 0.2 |
| | 7.2 | 7.4 |
| | **38.7** | **23.6** |

## 36. Deferred tax liabilities

All movements in deferred tax arise from temporary differences including deferred remuneration and pension costs.

| | **2013 £m** | 2012 £m |
|---|---|---|
| At 1 January | 9.6 | 9.9 |
| Income statement credit | (3.7) | (3.8) |
| Changes in timing differences – other comprehensive income (credit)/expense | (2.0) | 2.5 |
| Effect of changes in tax rates – other comprehensive income expense | 2.4 | 1.5 |
| Credit taken to equity | (1.3) | (0.5) |
| **At 31 December** | **5.0** | **9.6** |

## 37. Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have adequate capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Key risks and mitigations' section within the Strategic report and the 'Risk management and internal controls' section within the Governance report of this document as well as in note 20. The Company's specific risk exposures are explained below.

### Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

### Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover its normal course of business. The Company can request to borrow through intragroup loans and the Group loan facility (see below) to maintain sufficient liquidity.

In 2013, the Group entered into a committed loan facility of £50.0 million which replaced the former facility of £250.0 million that expired on 23 September 2013. The new facility expires on 30 September 2018.

### Interest rate risk

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

At 31 December 2013, if interest rates had been 50 basis points higher (2012: 50 basis points higher) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £3 million (2012: increased by £3 million) respectively, mainly as a result of higher net interest income on the Company's interest-bearing intercompany receivables and payables and cash; other components of equity would have been unaffected.

The model used to calculate the effect on post-tax profits assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

### Foreign exchange and pricing risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is not directly exposed to foreign exchange or pricing risk. The Company's investments in its directly held subsidiaries are in sterling and are held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group which could result in the impairment of these subsidiaries. There are currently sufficient resources in subsidiaries to absorb any normal market events.



## 38. Own shares

Movements during the year were as follows:

| | **2013 £m** | 2012 £m |
|---|---|---|
| At 1 January | (137.6) | (146.9) |
| Own shares purchased | (67.9) | (36.4) |
| Cancellations of own shares in treasury | 30.8 | 5.6 |
| Awards vested | 36.1 | 40.1 |
| **At 31 December** | **(138.6)** | **(137.6)** |

Own shares held by the Company comprise:

| | 2013 Vested shares Number Millions | 2013 Unvested shares Number Millions | 2013 Total Number Millions | 2012 Vested shares Number Millions | 2012 Unvested shares Number Millions | 2012 Total Number Millions |
|---|---|---|---|---|---|---|
| Ordinary shares held within trusts | 2.6 | 8.9 | 11.5 | 3.0 | 9.7 | 12.7 |
| Non-voting ordinary shares held within trusts | 0.4 | 0.2 | 0.6 | 0.6 | 0.2 | 0.8 |
| Non-voting ordinary shares held as treasury shares[1] | – | – | – | – | 0.1 | 0.1 |
| | 3.0 | 9.1 | 12.1 | 3.6 | 10.0 | 13.6 |

| | 2013 Vested shares £m | 2013 Unvested shares £m | 2013 Total £m | 2012 Vested shares £m | 2012 Unvested shares £m | 2012 Total £m |
|---|---|---|---|---|---|---|
| Ordinary shares held within trusts: | | | | | | |
| Cost | 38.4 | 136.6 | 175.0 | 39.1 | 134.9 | 174.0 |
| Fair value | 68.5 | 232.1 | 300.6 | 49.8 | 164.9 | 214.7 |
| | | | | | | |
| Non-voting ordinary shares held within trusts: | | | | | | |
| Cost | 4.2 | 2.0 | 6.2 | 6.3 | 1.8 | 8.1 |
| Fair value | 8.1 | 3.0 | 11.1 | 8.3 | 2.0 | 10.3 |
| | | | | | | |
| Non-voting ordinary shares held as treasury shares[1]: | | | | | | |
| Cost | – | – | – | – | 0.9 | 0.9 |
| Fair value | – | – | – | – | 1.1 | 1.1 |
| | | | | | | |
| **Total:** | | | | | | |
| **Cost** | 42.6 | 138.6 | 181.2 | 45.4 | 137.6 | 183.0 |
| **Fair value** | 76.6 | 235.1 | 311.7 | 58.1 | 168.0 | 226.1 |

[1] Non-voting ordinary shares held as treasury shares do not vest but are included in unvested shares for presentational purposes only.

## 39. Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries. As a result the related parties of the Company are members of the Company, including joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties. For regulatory purposes, the Company has issued a guarantee in respect of one of its subsidiaries to provide funds which might be required for that subsidiary to meet its obligations. No payment has been made in 2013 or any prior year in respect of this guarantee.

The Company has determined that key management personnel includes only the Board of Directors.

### Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation (which is set out in note 32), are disclosed below:

| 2013 | Revenue £m | Interest receivable £m | Interest payable £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
|---|---|---|---|---|---|
| Subsidiaries of the Company | 462.8 | 2.3 | – | 732.8 | (3.4) |
| Key management personnel | 0.1 | – | – | – | (3.3) |

| 2012 | Revenue £m | Interest receivable £m | Interest payable £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
|---|---|---|---|---|---|
| Subsidiaries of the Company | 97.4 | 7.4 | (0.4) | 816.4 | (1.9) |
| Key management personnel | 0.1 | – | – | – | (2.6) |

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

# Independent auditors' report to the members of Schroders plc

## Report on the financial statements

### Our opinion
In our opinion:
- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited
The Group financial statements and Parent Company financial statements (the 'financial statements'), which are prepared by Schroders plc, comprise:
- The consolidated and Schroders plc statements of financial position as at 31 December 2013;
- The consolidated income statement and statement of comprehensive income for the year then ended;
- The consolidated and Schroders plc statements of changes in equity and statements of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (Annual Report) rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

### What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- Whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Overview of our audit approach
*Materiality*

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £22 million. In arriving at this judgement we had regard to financial metrics that we believe to be relevant, and concluded that 5 per cent. of the Group's profit before tax was the most relevant benchmark.

We reported to the Audit and Risk Committee misstatements identified during our audit above £1 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# Independent auditors' report to the members of Schroders plc continued

*Overview of the scope of our audit*
The Group has three business segments, Asset Management, Wealth Management and Group, consisting of over 170 legal entities operating in 27 geographical locations. We audited the complete financial information of 16 entities, due to their size, significance and/or risk characteristics. These 16 entities represent 97 per cent. of Group revenue, 84 per cent. of Group profit before tax, 89 per cent. of Group total assets and 75 per cent. of Group net assets.

In establishing the overall approach to the audit of the Group, we considered our assessment of the risk of material misstatement within each entity. We determined the work that needed to be performed by us, as the group engagement team, or by local teams within PwC UK or from other PwC network firms. Where the work was performed by local audit teams, we determined the level of involvement we needed to have in the audit work for those entities to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The above audit procedures, together with the procedures we have performed at Group level and on the Parent Company, provided us with sufficient audit evidence for our opinion on the Group financial statements as a whole.

*Areas of particular audit focus*
In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit and Risk Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 59.

| Area of focus particular to Schroders plc | How the scope of our audit addressed the area of focus |
|---|---|
| Acquisition accounting<br>During the year, two acquisitions were undertaken, Cazenove Capital Holdings Limited and STW Fixed Income Management LLC. The accounting for these acquisitions is complex. The audit focus included the valuation of the intangible assets acquired, which is inherently subjective in nature.<br><br>The Group has recognised £242 million Goodwill and £112 million acquired intangibles during the year.<br><br>Refer also to note 28 to the financial statements. | We tested the consideration paid and the valuation of the identified net assets acquired.<br><br>We tested and challenged the valuation models prepared by the Group for the separately identified intangible assets by:<br>– Comparing the key assumptions (for example discount rate and longevity of acquired client relationships) against available market data; and,<br>– Testing key data inputs to source records (for example assets under management and historical client attrition rates).<br><br>We also performed sensitivity analysis to determine the impact of changes in the key assumptions, both individually and in aggregate.<br><br>We considered the appropriateness of the separate presentation in the Group income statement of the gains and expenses relating to the acquisitions during the year. |
| Provisions and contingent liabilities<br>The Group is exposed to actual and potential legal claims and also matters arising as a result of changes in regulation and legislation in certain countries.<br><br>During the period, the Group established a new provision for a possible penalty payable in connection with the US Department of Justice programme to identify US-related accounts with Swiss banks. The estimate of this provision is subjective and part of a process that is not expected to complete until after June 2014. The provision is therefore uncertain and it requires assumptions to be made about the tax status of relevant clients of the Group's Swiss bank.<br><br>The Group has provided £15 million at 31 December 2013, which was recognised as an exceptional expense.<br><br>Refer also to note 19 to the financial statements. | We inquired of senior Group management and the Group's in-house legal team regarding other potential exposures for the Group. We also obtained confirmation from the Group's external legal advisors and considered their written responses on known or potential claims.<br><br>We tested the US Department of Justice provision by:<br>– Testing the Group's extraction of client data and investment balances held for those identified as US-related accounts;<br>– Testing the stratification of the population, the estimation of a possible penalty, and reperforming the calculation of the provision; and<br>– Assessing the financial sensitivity of the provision to the underlying assumptions made by the Directors and evaluating the level of uncertainty at this stage of the process.<br><br>We also considered the appropriateness of the separate presentation and disclosure in the Group income statement of the provision expense (and any reversals) relating to the legal and regulatory uncertainties during the year. |

| Area of focus identified by auditing standards | How the scope of our audit addressed the area of focus |
|---|---|
| Risk of management override of internal controls<br>According to ISAs (UK & Ireland), there is a non-rebuttable presumption that management may override controls within their organisation, giving rise to a risk of misstatement due to fraud. | We assessed the overall control environment of the Group, including the arrangements for staff to whistleblow in respect of inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested key reconciliations and manual journal entries. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors. We also built in an element of 'unpredictability' to our testing. |
| Fraud in revenue recognition<br>ISAs (UK & Ireland) also presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. There is an inherent risk that revenue might be materially misstated. | We tested the timing of the recognition of more complex and judgemental revenue, including performance fees, manually calculated revenues, Wealth Management commissions and revenues from pooled and structured products. |

### Going concern
Under the Listing Rules we are required to review the Directors' going concern statement, set out on page 82. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

## Opinions on other matters prescribed by the Companies Act 2006
In our opinion:
– The information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
– The part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Other matters on which we are required to report by exception
### Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:
– We have not received all the information and explanations we require for our audit; or
– Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
– The Parent Company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

# Independent auditors' report to the members of Schroders plc continued

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 83 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 59, as required by C.3.8 of the Code, the Audit and Risk Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– The statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
– The section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have no exceptions to report arising from this responsibility.

### Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

– Materially inconsistent with the information in the audited Group financial statements; or
– Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
– Is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 83, the Directors are responsible for the preparation of the Group and Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Andrew Kail** (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2014

Notes:
(a) The maintenance and integrity of the Schroders plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five-year consolidated financial summary

| Before exceptional items | 2013 £m | 2012 £m | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|---|---|
| Profit before tax | 507.8 | 360.0 | 407.3 | 406.9 | 200.2 |
| Tax | (103.0) | (76.8) | (91.5) | (95.7) | (49.6) |
| **Profit after tax** | 404.8 | 283.2 | 315.8 | 311.2 | 150.6 |

| After exceptional items | 2013 £m | 2012 £m | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|---|---|
| Profit before tax | 447.5 | 360.0 | 407.3 | 406.9 | 137.5 |
| Tax | (94.8) | (76.8) | (91.5) | (95.7) | (41.8) |
| **Profit after tax** | 352.7 | 283.2 | 315.8 | 311.2 | 95.7 |

| Pre-exceptional earnings per share: | 2013 Pence | 2012 Pence | 2011 Pence | 2010 Pence | 2009 Pence |
|---|---|---|---|---|---|
| Basic earnings per share[1] | 149.9 | 104.7 | 115.9 | 111.8 | 54.0 |
| Diluted earnings per share[1] | 144.6 | 101.3 | 111.9 | 108.3 | 53.8 |

| Post-exceptional earnings per share: | 2013 Pence | 2012 Pence | 2011 Pence | 2010 Pence | 2009 Pence |
|---|---|---|---|---|---|
| Basic earnings per share[1] | 130.6 | 104.7 | 115.9 | 111.8 | 34.3 |
| Diluted earnings per share[1] | 126.0 | 101.3 | 111.9 | 108.3 | 34.2 |

| Dividends: | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Cost (£m) | 123.5 | 104.1 | 104.8 | 87.6 | 84.9 |
| Pence per share[2] | 46.0 | 39.0 | 39.0 | 32.0 | 31.0 |

| | | | | | |
|---|---|---|---|---|---|
| **Total equity** (£m) | 2,268.6 | 2,069.9 | 1,901.6 | 1,799.7 | 1,649.0 |
| **Net assets per share** (pence)[3] | 802 | 733 | 673 | 620 | 571 |

| **Group employees at year end** 31 December | 2013 Number | 2012 Number | 2011 Number | 2010 Number | 2009 Number |
|---|---|---|---|---|---|
| Europe | 2,503 | 2,032 | 1,966 | 1,836 | 1,725 |
| Americas | 294 | 251 | 236 | 224 | 240 |
| Asia Pacific | 731 | 728 | 700 | 662 | 644 |
| | 3,528 | 3,011 | 2,902 | 2,722 | 2,609 |

1 See note 8 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 (see note 22).

| **Exchange rates – closing** 31 December | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Sterling: | | | | | |
| Euro | 1.20 | 1.23 | 1.20 | 1.17 | 1.13 |
| US dollar | 1.66 | 1.63 | 1.55 | 1.57 | 1.61 |
| Swiss franc | 1.47 | 1.49 | 1.45 | 1.46 | 1.67 |
| Australian dollar | 1.85 | 1.57 | 1.52 | 1.53 | 1.80 |
| Hong Kong dollar | 12.84 | 12.60 | 12.07 | 12.17 | 12.52 |
| Japanese yen | 174.08 | 140.55 | 119.57 | 126.98 | 150.33 |
| Singaporean dollar | 2.09 | 1.99 | 2.02 | 2.01 | 2.27 |

| Exchange rates – average | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Sterling: | | | | | |
| Euro | 1.18 | 1.23 | 1.15 | 1.17 | 1.12 |
| US dollar | 1.57 | 1.59 | 1.61 | 1.55 | 1.56 |
| Swiss franc | 1.45 | 1.48 | 1.42 | 1.60 | 1.68 |
| Australian dollar | 1.64 | 1.53 | 1.54 | 1.69 | 1.99 |
| Hong Kong dollar | 12.18 | 12.33 | 12.50 | 12.03 | 12.09 |
| Japanese yen | 152.51 | 126.93 | 127.84 | 135.68 | 145.58 |
| Singaporean dollar | 1.96 | 1.98 | 2.02 | 2.11 | 2.26 |

# Strength

## Investing in long-term growth opportunities

Investment in both organic growth and acquisition opportunities throughout the market cycle, enabled by a strong financial position.

**£677m** Investment capital above our regulatory and operational requirements

# Shareholder information

## Contact information

**Schroders plc**
Registered in England and Wales
Company No. 3909886

**Registered office**
31 Gresham Street
London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 3977
Email: companysecretary@schroders.com
**www.schroders.com**

**Share Registrar**
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

**UK shareholder helpline:**
Freephone (UK callers only) 0800 923 1530
International shareholder helpline: Tel: +44 117 378 8170
Fax: +44 (0) 870 703 6101
**www.investorcentre.co.uk**

## Financial calendar

| | |
|---|---|
| Ex-dividend date | 26 March 2014 |
| Record date | 28 March 2014 |
| Interim Management Statement | 1 May 2014 |
| Annual General Meeting | 1 May 2014 |
| Final dividend payment date | 7 May 2014 |
| Half-yearly results announcement | 31 July 2014 |
| Interim dividend paid* | September 2014 |
| Interim Management Statement | 6 November 2014 |

* date to be confirmed.

## Annual General Meeting

Our Annual General Meeting will be held at 11.30 a.m. on 1 May 2014 at 31 Gresham Street, London EC2V 7QA.

### Investor Centre

Computershare is the Company's share registrar. Investor Centre is Computershare's free, secure, self-service website, where shareholders can manage their holdings online.

The website enables shareholders to:
– View share balances
– Change address details
– View payment and tax information
– Update payment instructions

Shareholders can register their email address at www.investorcentre.co.uk to be notified electronically of events such as annual general meetings, and can receive shareholder communications such as the annual report or notice of meeting online.

Enquiries and notifications concerning dividends, share certificates or transfers and address changes should be sent to the Registrar.

### Dividends

Paying dividend payments into a bank or building society account helps reduce the risk of fraud and will provide you with immediate access to your funds. To apply for a dividend mandate please contact the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated tax voucher which will be sent to you in September each year at the time the interim dividend is paid.

Dividend tax vouchers are available electronically at www.investorcentre.co.uk to those shareholders who have their dividends mandated to their bank or building society accounts and who have expressed a preference for e-communications.

The Company operates a dividend reinvestment plan (DRIP) which provides shareholders with a way of increasing their shareholding in the Company by reinvesting their dividends. For a copy of the DRIP information pack and application form please contact the Registrar.

Details of dividend payments can be found in the Directors' report on page 82.

Schroders offers a service to shareholders in participating countries which enables dividends to be received in local currencies. To check your eligibility and/or request a mandate form please contact the Registrar.

### Overseas branch register

An overseas branch register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to our Registrar.

### Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FCA before getting involved by visiting www.fsa.gov.uk/register/home.do;
- Report the matter to the FCA by calling 0845 606 1234 or visiting www.fca.org.uk/scams; and
- Do not deal with any firm that you are unsure about.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid.

More detailed information on this or similar activity can be found on the FCA website at www.fca.org.uk/scams.

### Capital gains tax

Capital gains tax values at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.

# Glossary

**Actively managed**
The management of assets based on active decision-making as opposed to the direct replication of an index

**AIFMD**
Alternative Investment Fund Managers Directive, approved in November 2010

**Alpha**
Excess return over beta relative to a market benchmark

**Assets under management (AUM)**
The aggregate value of assets managed on behalf of clients. In Wealth Management this also includes assets held in custody where execution-only services are provided

**Basis point (bps)**
One one-hundredth of a percentage point (0.01%)

**Benchmark-unaware**
An investment product or strategy that is not measured against a defined standard such as a broad market or specific asset index

**Beta**
Market returns

**Carbon dioxide equivalent ($CO_2e$)**
A standard unit for measuring carbon footprints. It enables the impact of different greenhouse gas emissions on global warming to be expressed using an equivalent amount of carbon dioxide ($CO_2$) as a reference

**Compensation cost**
Total employee benefits expense

**Compensation cost to operating revenue ratio**
Compensation cost divided by operating revenue

**Costs to net revenue ratio**
Total Group costs divided by net revenue

**Decumulation**
The use of an individual's assets to finance retirement

**DEFRA**
Department for Environment, Food and Rural Affairs

**Dodd-Frank**
The Dodd-Frank Wall Street Reform and Consumer Protection Act, a federal statute in the United States, effective since July 2010

**Employee benefit trust**
An employee benefit trust is a type of discretionary trust established to provide employee benefits such as affording employees the opportunity to hold vested or unvested share awards in their employing company, with a view to facilitating the recruitment, retention and motivation of employees

**Family offices**
These manage the financial and investment side of an affluent individual or family

**FATCA**
Foreign Account Tax Compliance Act in the US

**Fitch Asset Management Rating**
Asset manager ratings reflect an assessment of an asset management organisation's vulnerability to operational and investment management failures, as reflected by the quality of the organisation's experience, staffing resources, investment processes, internal control environment, investment administration capabilities and related technology resources. Asset manager ratings are assigned on a scale from 'Highest Standards' to 'Inadequate Standards'. Highest Standards denotes the lowest vulnerability to operational and investment management failures

**FCA**
Financial Conduct Authority

**Hard and soft closed funds**
A soft closed fund is not marketed actively but is still open to additional investment from clients. Hard closed applies to a fund that is not open to new investment, either from new or existing shareholders

**ICAAP**
Internal Capital Adequacy Assessment Process

**IFRS**
International Financial Reporting Standards

**Institutional sales channel**
Institutional clients, such as pension funds, insurance companies and government funds, come to Schroders through their own adviser or consultant. Assignments are typically highly specific and may dovetail with their other investments in a range of asset classes and with other managers they employ

**Intermediary sales channel**
Schroders works with intermediaries such as banks, insurance companies and independent financial advisers, who advise the end retail client

**Investment capacity**
The extent to which easily accessible investments are available, which are capable of delivering the required return of a particular product or investment strategy

**Investment performance**
This is calculated by Schroders, using published benchmarks for products, where available, for Asset Management only. It excludes Private Equity, LDI, externally managed GAIA funds and some property products evaluated by Internal Rate of Return. If no benchmark is published or agreed with the client but it is listed in competitor rankings, the relative position of the fund to its peer group is used. Funds with no benchmark but an absolute return target over the one or three year period are measured against that absolute target. Funds with no benchmark and no target may be measured against a cash return, if applicable. As at 31 December 2013, such comparator data existed for 76 per cent. of Asset Management AUM over three years and 88 per cent. over one year.

We reviewed the basis of preparation of this data during 2013 as reflected in our explanation of the calculation above. These changes have not had a material impact on prior year figures

**Investment returns**
The increase in AUM attributable to investment performance, market movements and foreign exchange

**Liability-driven investment (LDI)**
A form of investing where the main goal is to gain sufficient assets to meet all known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes

**Life Company**
Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper

**MiFID**
Markets in Financial Instruments Directive

**Multi-asset**
A combination of asset classes (such as cash, equity and bonds) used as an investment that creates a group or portfolio of assets

**Net new business**
Funds from clients less funds withdrawn by clients excluding market and currency changes

**Net revenue**
Net fee income, net banking interest income and net gains/(losses) on financial instruments and other income. Net revenue excludes net finance income from non-banking operations

**Net revenue margins**
Asset Management plus Wealth Management net revenue excluding exceptional items divided by total average assets under management

**Official institutions**
These are central governments of countries, including all departments and agencies of national governments; central banks, exchange authorities, and all fiscal agents of national governments that undertake activities similar to those of a treasury or central bank

**Operating revenue**
Net revenue for the Asset Management and Wealth Management operating segments

# Glossary continued

**Outcome-orientated products**
Customised investment solutions designed specifically to meet clients' investment needs, for example, providing an income stream post-retirement

**Pillar 1**
The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal

**Pillar 2**
The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1

**Pillar 3**
This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at www.schroders.com/ir

**Platforms**
Platforms in the UK savings market offer a range of investment products such as Individual Saving Accounts (ISAs), unit-linked Life and Pension bonds and Self-Invested Personal Pensions (SIPPs) to facilitate investment in a multitude of funds from different managers through one portal

**PRA**
Prudential Regulatory Authority

**Profit share ratio**
Bonus charge divided by pre-bonus Asset Management and Private Banking operating profit. This is also described as pre-bonus operating profit

**RDR**
The UK Retail Distribution Review

**Regulatory capital**
Regulatory capital is the amount of risk capital set by legislation or local regulators, which companies must hold to allow them to survive any difficulties such as market or credit risks

**Remuneration hedging**
The purchase of own shares to hold against share-based awards made to employees as part of the Group's remuneration strategy

**Rights to shares**
The entitlements of employees, including executive Directors, to Company shares until vesting conditions have been satisfied and the awards exercised

**Solvency II**
The Solvency II EU directive concerning the governance, risk management disclosure and the amount of capital that EU insurance companies must hold to reduce the risk of insolvency

**Tier 1 capital ratio**
This is the measure used by regulators to assess a bank's financial strength and is the ratio of a bank's core equity capital to its total risk-weighted assets. Risk-weighted assets are the total of all assets held by the bank weighted by credit risk, as determined by local regulators

**UCITS**
Undertakings for Collective Investments in Transferable Securities

UCITS IV aims to make cross-border distribution easier by harmonising regulatory frameworks across the single European market

**UK Bribery Act**
The Bribery Act 2010 that came into force on 1 July 2011, which covers UK criminal law relating to bribery

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