Schroders

Annual General Meeting 2021 Statements from the Chairman and Group Chief Executive

Michael Dobson – Chairman

We regret that in light of the COVID-19 pandemic and government restrictions, we have again been unable to invite shareholders to join us in person. We remain committed to holding physical meetings where possible, and we look forward to the opportunity of seeing shareholders in person at future meetings. We see the AGM as an important part of our shareholder engagement programme, and therefore we have enhanced our arrangements this year so that shareholders can view proceedings online.

2020 was a year of unprecedented challenges as a result of the COVID-19 crisis and its impact on the economy and financial markets. The crisis required a swift response to ensure that our business was able to continue to operate efficiently, and our Annual Report illustrates some of the steps we took to protect clients, our employees, and wider stakeholders. The Board was fully engaged at all times, and we held 19 Board meetings during the course of 2020.

Although the pandemic was naturally a major subject of the Board's discussions, we continued to focus on our long-term strategy, opportunities and challenges, and the development of our sustainable and resilient business model.

The Board continues to evolve, and we welcomed last year Matthew Westerman and Claire Fitzalan Howard to the Board, both of whom are making a valuable contribution.

Your company has proved to be resilient in the face of the challenges posed by the pandemic. Our success is built on our reputation and values, our diversified business model, our financial strength, and above all, on the quality, professionalism, and commitment of our people. We could not have delivered these results for shareholders, served our clients, or contributed to wider society in the way that we have if our employees had not risen to this challenge. I would like to thank them for what they have done and what they continue to do for Schroders.

Peter Harrison – Group Chief Executive

I started last year's AGM talking about the COVID-19 pandemic, in the midst of a financial crisis. One year on, I am really pleased by the way your business performed, and in particular the way our employees rose to the challenge.

Schroders has a robust business model, and it enabled us to deliver positive results for stakeholders, despite the environment. We generated good financial performance during 2020. Net income before exceptional items increased to £2.2 billion, and total costs to net income ratio was 68%. Pre-exceptional profits were also up marginally from 2019, at £702.3 million.

Our net inflows of new assets reached £42.5 billion for the year. That figure is before a further £12.4 billion of net new business from our joint ventures and associates, such as Bank of Communications and Axis. All in all, this was a very pleasing result for the business, especially when one considers what was going on in the wider world. These inflows pushed our assets under management to a new high of £574.4 billion, and our brand is now the highest ranked globally of any non-US firm.

Our strong financial performance meant we could sustain our progressive dividend policy throughout this pandemic and also into 2021. The Board has recommended maintaining our final dividend at 79 pence per share, a pay-out ratio of 57%.

Whilst 2020 was a year which posed many challenges, it also served as an important test of corporate character. I am delighted that our performance was generated without recourse to furlough schemes, government subsidies, or any Covid-related redundancies.

The year also highlighted the essential part that active investment management plays in ensuring we were able to look after our clients' investment capital throughout times of market turmoil. Our portfolio management teams delivered strong investment performance, despite the volatility in markets. Over three and five years, 72% and 81% respectively of our client assets outperformed their respective performance benchmarks. We also continued to meet client requests despite lockdown measures in all jurisdictions in which we operate.

Our investment in technology and infrastructure over the past few years meant we transitioned to servicing clients digitally very quickly. It has been a challenging period with 99% of the workforce working remotely, but I was delighted by meeting those service standards.

Over the past year, it was paramount that we kept our people safe and looked after their wellbeing. It continues to be a key focus. I would like to thank each and every one of our employees for their continued dedication. It was their professionalism and commitment that ensured Schroders' high standards were maintained. I also want to recognise their support and contribution to our #CollectiveAction campaign, which raised £4.3 million for Covid-related charities around the world.

Sustainability has long been a critical area for us and this continued throughout last year. Historically, our industry is focused on two dimensions – investment performance and risk. I believe a third dimension – impact – is now a part of what we do. What is the cost to society of delivering the profits and investment returns?

We set ourselves a target of integrating ESG (environmental, social, and governance) factors into 100% of our managed assets. I am pleased to say we were able to achieve that target despite the challenges of the pandemic. We built a number of additional proprietary tools to assess the 'impact-adjusted profits' of the companies we invest in.

At a corporate level, we accelerated initiatives on a range of environmental and social issues, improving the sustainability of our own business. We have been operating the business on a carbon-neutral basis since January 2019, but that is only the start of our efforts, given the scale of the problem we are facing with climate change. Last year, we became a founding member of the Net Zero Asset Managers initiative. This is a group of leading asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. We have also committed to reducing our own emissions in line with a science-based target not only for our business, but also for the investments we manage on behalf of our clients.

We are now rated amongst the very best ESG investment firms by independent rating agencies MSCI and Sustainalytics. We have a comprehensive range of sustainable funds with strong investment performance to offer our clients as an alternative to traditional funds. To our mind, there is no doubt that the financial system should, and will, play a powerful role in addressing some of today's most pressing issues. As an active Asset Manager, we are well-placed to create impact across all of the client assets we manage. Whilst our behaviour as a corporate entity may be relatively small in magnitude relative to the assets of our clients, the values that underpin our own business are fully aligned with those of our clients and the assets we run on behalf of our clients.

A key differentiator for us are our proprietary tools. SustainEx, which is our primary tool, for example, is an award-winning tool that measures the impact of our clients' investments. If you apply that scrutiny to Schroders' own business, we'd have a SustainEx score of 3.1%, or expressed in a different way, we create £3.10 of social value for every £100 of sales. Just to put that in context, the average financial services firm has a score of -30p.

It is of strategic importance that we attract and retain the right talent. That is critical to us. In spite of the challenges in 2020, the results of our employee engagement survey were extremely encouraging – 98% of our employees said they were proud to be associated with Schroders.

We continue to invest for the future of our business to accelerate revenue growth for the long term. There are three strategic initiatives which I want to briefly highlight.

First, Cazenove Capital, our UK wealth management business, has a compelling offering. However, when you look at our current regional assets under management, it is relatively small in comparison to the size of our London presence. So, we are in the process of expanding our presence into another four major cities: Manchester, Leeds, Birmingham and Bristol. We have made good progress in terms of hiring and we expect those businesses to deliver good growth in the medium term as we expand outside of London, which will contribute meaningfully to profits.

Secondly, our business in the US. We have invested heavily to support regional growth there. We have now reached the important milestone of over $100 billion of assets under management, and our partnership with Hartford Funds, which started just under five years ago, has now reached $10 billion of assets. Overall in the US, we generated net flows of £11.2 billion. That is a pleasing outcome for the business, and we are investing further in our US distribution capability.

Third and finally, I wanted to highlight the second largest market in the world: China. We have had a strong presence locally for over 25 years, and our long-term strategy has now put us in a good position for growth.

In the last 12 months, we have been granted permission to obtain a Fund Management Company licence, which will enable us to provide solutions not only to onshore institutions, but also to retail customers. There is a clear opportunity for Schroders to bring international investment expertise to a rapidly growing onshore asset management market.

In addition, I am also pleased to say that we have been chosen as the partner for Bank of Communications to form a new Wealth Management Company joint venture with. Once we start the business activities, I anticipate that this continued partnership with one of China's biggest banks will prove to have very significant growth potential. We are the only UK company to have been awarded either of these licences.

These initiatives that I have highlighted are a continuation of what we have said for a number of years about our long-term commitment to growth. Over this past year, regardless of the extraordinary circumstances, we executed on that long-term strategy by investing for strong, diversified growth, and will continue to pivot into higher growth areas, both in Wealth Management, Private Assets, and elsewhere in the group.

As I said last year, this pandemic is a marathon and not a sprint. I am cautiously optimistic that 2021 will be much less tumultuous. Markets have normalised and two big, important macro events, Brexit and the US elections, are behind us. 21st June looks as if it will herald the start of a widespread return to UK office working, which will enable us to reconnect properly with one another again.

We are building off a base of strong investment performance and strong employee engagement. The improved client sentiment we experienced in the second half of last year has continued during the first quarter of 2021. This is particularly true of our Mutual Fund ranges in Continental Europe and the US. Our assets under management rose a further 1.5% in the first quarter despite the strength of sterling, and they were at £582.9 billion at the end of March. Our resilient business model thankfully weathered the storm very well.

So once again, thank you very much for your continued support. I do look forward to being able to see you again in person next time.