Annual General Meeting 2020 Statements from the Chairman and Group Chief Executive

Michael Dobson – Chairman

The impact of COVID-19 to public health and the economy is unprecedented. I'd like to place on record our sincere condolences to all who have lost relatives and friends to the virus. Schroders has remained fully operational throughout this time. The Board has been meeting regularly by telephone to discuss not only our own business, but also how we can support our wider stakeholders in line with our corporate purpose.

You will hear shortly from the Chief Executive about the resilience of Schroders’ business and the collective action we're taking to help those impacted by COVID-19, including a material increase in our direct charitable donations this year, and in our match-giving with employees.

We believe it is right for the company to increase our charitable support, assisting those who are most impacted by this crisis. The Board has decided to donate to COVID-19 charities 25% of our salaries and fees for three months, and the Chief Executive and Chief Financial Officer will, in addition, donate their entitlement to their 2020 Long Term Incentive Plan to charity.

I would like to comment on Board composition. This is something we have spent a lot of time on and it is a continuous process and focus for the Board.

Since the last AGM, Nichola Pease has left the board, and I would like to place on record our thanks to Nichola for her significant contribution over more than eight years as a member of the Board and as chair of the Remuneration Committee and a member of the Audit and Risk Committee.

Matthew Westerman joined the board as an independent, non-executive Director on the 9th of March 2020, and is standing for election for the first time today. Matthew brings to the board significant experience of global financial markets after a distinguished career in investment banking and we look forward to benefiting from his contribution.

Philip Mallinckrodt will retire from the Board at the conclusion of this AGM, after 11 years as a Director. Over a total of 24 years with Schroders, Philip has served in a number of senior executive positions and for the last three years, as a non-executive Director. I would like to thank Philip on behalf of the Board for his commitment and contribution to Schroders over many years.

Claire Fitzalan Howard is standing for election today for the first time. Claire's appointment reflects the commitment to the Company of the principal shareholder group, which has been an important part of Schroders success over the long term.

Since becoming chairman in 2016, I've overseen significant changes to the Board. I believe the Board is well positioned to take the business forward in line with our strategy. We will continue to review Board composition and succession plans, and in that context, as I indicated in the annual report, I've asked Ian King, as Senior Independent Director, to lead the Nominations Committee in planning for my own succession.
In most years I would start by talking about the events of the previous year. However, given the unprecedented events we find ourselves in, it seems more appropriate that I start with the COVID-19 situation.

First and foremost, I'd say that this is a public health crisis and our key priority has been and continues to be the well-being of all our employees and their families. We are committed to supporting all our colleagues, clients and the wider community through this crisis. And I should say right at the beginning we're not seeking any government assistance globally, nor are we furloughing any employees or enacting any related redundancy programmes. We are committed to doing the right thing by all of our stakeholders in this unprecedented time.

Today, 99.5% of our employees globally are working from home. Despite this enormous upheaval, I'm very proud indeed of how our people have reacted; their adaptability and resilience has meant the business has really not missed a beat. Productivity remains strong thanks to the investment we've made in improving our technology and operating platform over the last few years. And I was particularly proud that we successfully brought in the remaining Scottish Widows assets during the lockdown period. This contributed to net new business in the first quarter of 2020 of over £30 billion, a remarkable result given the environment in which we find ourselves.

Now, as an active investor in companies, we remain very engaged in supporting business through these extraordinary times. There are many well-managed businesses with otherwise strong fundamentals that find themselves facing severe challenges. We're keenly aware that we've a role to play in supporting these companies with the aim of protecting the long-term interests of all their stakeholders.

As we have already said, we believe that now is also the right time to materially increase our charitable support for those most impacted. In addition to donations by the members of the Board, we've launched a Group-wide collective action campaign and through this, our employees can donate 25% of their salaries for three months or make one-off donations which will be double-matched by Schroders. And we are also increasing the number of days employees can take to undertake charity work from two to five so that we can give practical as well as financial support to those most affected.

We can now take a moment to look back further at the events of last year. For us, 2019 was another year of significant progress towards our strategic objectives. We were delighted to see that the structural changes we've made in the business resulted in a robust performance. We generated record net new business of over £43 billion and reported net assets under management of over half a trillion pounds for the first time. Although our closing assets under management represented a 23% increase year-over-year, because net flows funded late in the period and markets only significantly improved through the fourth quarter, our average AUM, which is a more important measure from a revenue point of view, was up 2%. Net income increased slightly in the year to £2.1 billion, and a decline in net operating revenue was offset by higher performance fees and carried interest, and a strong contribution from joint ventures and associates.

To deliver the scalable operating platform which has been so crucial to the business over the last few weeks and months, we continued to invest in technology across the business and grew headcount in areas of strategic growth. So, pre-exceptional profits declined 8% to £701.2 million and the Board remained recommending maintaining the final dividend at 79 pence per share, bringing the total dividend to 114 pence per share, a pay-out ratio of 57%.

From a strategic point of view, I’d say that there have been three key initiatives that took place during 2019. The first was taking on board the first part of the mandate from Lloyds Bank, which saw over £45 billion of assets flow into the business. The second was the acquisition of Blue Orchard, which gives us a leadership position in impact investing, and I believe impact investing will prove to be the next mega-trend within asset
management. And the third was the initiative within Wealth Management to launch a joint venture with Lloyds called 'Schroder Personal Wealth', because this is an important partnership for future growth.

Now, we also made changes to our financial reporting in 2019 to give our shareholders and the wider investment community more granularity, more transparency and to align reporting much more meaningfully to our strategy. We now report across five business areas: Private Assets and Alternatives, Solutions, Mutual Funds, Institutional Asset Management and Wealth Management.

And if I take a moment to remind you of our three parts of our growth strategy. First, we aim to grow our core business through Solutions. Second, we want to move closer to the end consumer through Wealth Management and through our joint ventures. And thirdly, expanding our expertise in Private Assets, which is a clear area of market growth. We expect the majority of our growth to come from these three business areas. These saw good growth throughout 2019, generating over £50 billion of net new business and at the yearend represented over half our assets under management and 40% of our revenues.

The final two business areas of Mutual Funds and Institutional could perhaps be described as more mature, traditional asset management, and whilst there are challenges facing those parts of the industry, such as passive management and ongoing revenue margin pressures, we do still see growth opportunities here too. The Mutual Fund business tends to react swiftly to market events and is clearly in a 'risk off' environment at the moment, but if we look at the historical growth rate in revenues, we've seen annual compound growth of 5%, which isn't unattractive.

The traditional index relative Institutional business has seen outflows over recent years as a number of clients have moved into either private assets, passive or full solutions, but aside from the obvious cross-selling opportunities, it's here that we expect our greater focus on sustainability to come through. It's an area we aspire to lead the market in. We've committed to ESG integration across 100% of our assets under management by the end of this year, and it is a really important initiative for us.

So, overall a robust performance in 2019, generating strong inflows, and ending the asset year with assets at a new high.

This time last year I said a few words around how I believe that we have an important role to play in shaping and improving the futures of all of our stakeholders. And this of course includes our shareholders and we're confident that we continue to generate value for you. But this also means our clients for whom we have to remain absolutely focused on delivering positive outcomes.

As an active, responsible investor we're engaged with companies on environmental, social and governance issues. We did this 1,750 times throughout 2019 and we voted at 6,000 company meetings around the world. For the fifth consecutive year, we were proud to receive the UN PRI A+ rating for responsible investing and were also awarded an A+ for our active ownership.

Our people are also a key stakeholder and we aim to be the employer of choice in our sector. I was delighted in the recent employee opinion poll that we asked employees, 91% were proud to work for Schroders. We recognise there is still work to do to attract and retain a diverse pool of talent. Diversity and inclusion has been an important focus for us over the past years and we're working on gathering better data across the group to help build an ever more inclusive culture.

I've already mentioned our approach to helping the communities in which we live, and we've significantly ramped up these measures over recent months in response to the COVID crisis.

Finally, I recognise we have a responsibility from an environmental perspective. To further this commitment, we signed the UN Global Compact towards the end of 2019. Now, the UN Global Compact is the world’s largest sustainability initiative and we've aligned our operations and strategies to their ten universally-accepted principles.
From this year onwards, we've committed to operating on a net zero carbon basis across the group. We're a signatory to the RE 100 initiative and have also committed to using only renewable energy globally by 2025, and we've an interim target of 75% by 31st December 2020. At the end of 2019, we'd achieved a total of 68% of electricity from renewable sources and even before the current crisis we'd set out what at the time felt a very ambitious target of cutting our air travel across the group by 30% this year; that now seems a relatively odd target.

To look further ahead, I think it's clear that this crisis is a marathon, not a sprint. There are certainly challenging times ahead of us. I don't believe that we yet know the full economic and social impacts, but I do believe however there will be a fundamental change in the contract between business and society, and there will be profound changes for the way in which we do business going forward across all sectors.

There have been extraordinary levels of market volatility in recent weeks, and whilst we seem to have reached a relatively stable period on a day-to-day basis, global markets have not recovered; the FTSE100 for example is down almost 20% from the levels we saw in mid-February. Growth forecasts globally have been slashed and a global recession is now a certainty.

As I touched upon earlier, as an active, responsible investor these are challenging times; we have an important role to play in refinancing companies and rebuilding economies. And crucially, it's worth restating that our overall strategy is to drive growth of the business. This remains unchanged, we will continue to invest through the market cycle, and continue to generate value for clients and for our shareholders.

So once again, thank you very much for your continuing support. I hope to see you all in person when we can return to our usual format.