The events of 2020 were quite extraordinary. The global pandemic and ongoing political uncertainty impacted investor sentiment and led to market volatility. Against this backdrop, I am very pleased with not only the results we have delivered, but also the progress we have made in enhancing our operational capabilities and in making sure we continue to do the right thing for society.

Our diversified business model has again shown its benefits as we delivered pre-exceptional profit before tax of £702.3 million, a small increase on 2019 (2019: £701.2 million). Profit after tax and exceptional items decreased slightly to £486.0 million (2019: £495.7 million), principally due to higher acquisition related costs and other one-off items in our associates and joint ventures. Given this performance the Board is recommending a final dividend of 79 pence per share (2019: 79 pence per share). This means a total dividend for the year of 114 pence per share (2019: 114 pence per share) and represents a payout ratio of 57% (2019: 57%).

Resilient results in exceptional times

We have previously set out three strategic areas, which we believe will drive our future growth: the continued advancement of our global Asset Management business; the development of our Private Assets & Alternatives capabilities; and the expansion of our Wealth Management business through closer relationships with end clients. Although 2020 was not without its obstacles, we continued to make good progress in each of these areas.

In Asset Management, our focus on delivering investment outperformance, combined with ongoing innovation and product development, has enabled us to continue to attract positive net new business despite the market uncertainty.

We have also continued to build out our Private Assets & Alternatives capabilities, most notably through the purchase of a majority stake in a Hong Kong based real estate manager, Pamfleet, which extends our geographical real estate capabilities into Asia. This acquisition contributed £0.6 billion of additional AUM, which helped increase our Private Assets & Alternatives AUM to £46.1 billion.

Across our Asset Management segment we generated £40.8 billion of net new business, with particularly strong growth in our Solutions business. These developments, together with positive investment returns, enabled us to grow our Asset Management AUM to £502.4 billion (2019: £433.5 billion).

In Wealth Management, the acquisition of Sandaire, which completed late in the year, further strengthened our strong family office franchise and added to our capabilities in the UK ultra-high-net-worth sector. We also made progress in expanding our presence in Singapore and across the various regions in the UK as we made a number of key hires in both markets. Our joint venture with Lloyds Banking Group plc, Schroders Personal Wealth (SPW), which we launched in the second half of 2019, made positive progress despite the challenging market environment. Across our Wealth Management segment we generated £1.7 billion of net new business as we grew our AUM to £72.0 billion (2019: £66.7 billion).

These strategic developments helped us to grow our total AUM to a record high of £574.4 billion (2019: £500.2 billion), with total net new business of £42.5 billion. Our associates and joint ventures had a successful year and at 31 December, managed £88.6 billion of AUM, which is not currently included as part of our Group AUM. In 2020 these businesses generated £12.4 billion of additional net new business. Management fees were down slightly at £2,327.2 million (2019: £2,380.2 million). This was driven by a shift in the mix of our business as a result of the growth in our Solutions business and the impact of markets. We delivered strong investment performance for our clients, resulting in £95.7 million of performance fees and net carried interest, up from £73.1 million in 2019. This growth was partly offset by lower real estate transactional income, which was impacted by reduced deal volumes as a result of the global pandemic, and lower net banking interest in Wealth Management due to the low interest rate environment. Overall, net operating revenue was up slightly at £2,059.6 million (2019: £2,052.4 million).
As the Group Chief Executive’s statement sets out, our global partnership network is a key component of our growth plans, and our interests in joint ventures and associates, particularly our long-standing venture with Bank of Communications in China, showed strong returns in 2020. As a result, income from joint ventures and associates increased to £64.1 million (2019: £30.5 million). Our proprietary investments, which comprise seed capital, co-investments and our investment capital portfolio also performed well, generating gains of £42.5 million (2019: £23.5 million), notwithstanding the fact that they are managed on a market neutral basis. These returns are included within net gains on financial instruments and other income and contributed to net income increasing to £2,179.2 million (2019: £2,124.8 million).

The increase in net income was largely offset by higher costs. We increased our Total compensation ratio from 44% to 45%. Non-compensation costs were slightly higher at £502.2 million (2019: £496.3 million), largely due to the impact of acquisitions, and as a result of the strategic investments we have been making in our technology and infrastructure. The cost increases were dampened by reductions in travel due to the impact of the global pandemic and other cost savings. This resulted in a total profit before tax and exceptional items of £702.3 million (2019: £701.2 million).

The investments we are making in the business are an important part of our growth strategy. They include strategic investments in China, where we have recently announced two new businesses. The first is an investment in a Wealth Management Company, a joint venture with the Bank of Communications. The second is a wholly owned Fund Management Company. Both provide a significant opportunity for us to bring more of our investment capability to the region by growing our onshore presence.

Changing working habits, which have been accelerated by the pandemic, have enabled us to review our office capacity needs. As a result, we took the decision to reduce our office space in London and Hong Kong. The costs associated with the changes to our property estate amounted to £16.3 million and have been presented as exceptional items within our Group segment. Other exceptional items are largely acquisition related, including the amortisation of intangible assets and one-off costs relating to the transformation and set up of SPW which is part of our Wealth Management segment. In total, exceptional items were £91.8 million (2019: £76.6 million), which meant a profit before tax of £610.5 million, down 2% on 2019. Profit after tax was £486.0 million (2019: £495.7 million).

Advancing our operational capabilities

The Group Chief Executive’s statement refers to our operational resilience, in particular highlighting our successful onboarding of assets under the Scottish Widows’ mandate which completed during the first UK lockdown. This was achieved as we benefited from the investments we have made in technology and infrastructure. These enabled us to make the switch to remote working efficiently across our global network with no impact on our ability to deliver for our clients.

The year also saw us advance our operational capabilities in a number of other ways. We relocated operational processes from Luxembourg and London to our site in Horsham, West Sussex, enhancing our efficiency and effectiveness. In the UK, we also changed our transfer agency provider to HSBC. This provides us with a competitive and innovative service in a market that had previously been dominated by a single player. Elsewhere, in Singapore, we significantly expanded our investment operations team in response to the increasing needs of our growing Asian business.

“Our diversified business model has enabled us to deliver a robust set of results, as we continue to make progress against our strategic objectives.”
Contributing to society
Covid-19 has had an undeniably disruptive impact on society and we recognise that we have a responsibility not only to our clients and shareholders but also to wider society and the communities in which we operate. Our diversified business model and operational resilience meant that we were well placed to manage the challenges that it posed.

Recognising the important role we play, we have actively supported our suppliers, people and wider society. We were particularly mindful of the impact lower employee presence in our offices would have on our facilities team and service providers. We maintained all salaries, paying everyone in full throughout the year. We did not furlough any employees or make any redundancies as a result of the pandemic. Nor did we seek or accept any government support.

We also increased our wider support for charities and our total contribution to charities during the year was £4.9 million. A key element of this was the Group’s contributions to our #CollectiveAction campaign, assisting those most impacted by Covid-19, as outlined on page 41.

As an active asset manager, investing across public and private markets, we have a fundamental role to play in encouraging the companies that we invest in to recognise their environmental and social responsibilities. This includes encouraging them to address the climate impact of their businesses. It is equally important that we lead by example, and we are committed to planning for, and executing on, the transition towards net zero emissions within our own operations. We continue to target significant reductions in our greenhouse gas emissions, and in 2020 our CO₂e emissions per employee reduced by 73% to 1.21 tonnes (2019: 4.49 tonnes). Notwithstanding the reductions that arose as a result of Covid-19, particularly from less travel, we made good progress in line with our plans. For more information see page 42.

Reflecting our ambition to demonstrate leading practice when it comes to minimising the negative impact of our business on the environment, we have taken a number of other significant steps in 2020. We became a founding member of the Net Zero Asset Managers initiative and committed to setting a science-based emissions target by the end of 2021. As part of these commitments, we will be publishing our climate action plan later this year. This plan will outline how we intend to transition towards net zero emissions across our own operations and wider value chain by 2050 or sooner, as well as highlighting interim targets in this area.

This aligns with our increased focus on climate change within our broader corporate responsibility (CR) strategy, which focuses on our impact on people and the planet. In particular, we are looking at how our activities as a business can play a role in reducing inequalities and tackling climate change. More information on our approach to CR can be found from page 30.

Corporate Responsibility Strategy

People

Reducing inequality
Focusing on inclusion, wellbeing and human rights

Delivered by

Investment solutions
Tools and measurement
Operations and supply chain

All underpinned by

Our culture and values
Policies and standards
Partnerships
Charitable giving, fundraising and volunteering

Planet

Tackling climate change
Focusing on science-based targets and a net zero emissions pathway

Business areas
In 2019, we presented our AUM across our five business areas of Private Assets & Alternatives, Solutions, Mutual Funds, Institutional and Wealth Management for the first time. This presentation better aligns with the way we manage our business and the shift in client demands.

Both Private Assets & Alternatives and Wealth Management are explicitly linked to two of our strategic objectives. The three other areas are a key part of our strategy to grow Asset Management. Solutions in particular is a key area of growth where we are able to use our active investment expertise to differentiate ourselves and help meet the increasing demand from clients for the management of balance sheet risk.

Providing high quality active management to Institutional clients remains a core part of our business. Whilst our Mutual Funds business faces wider market pressures, it remains an important component of our overall Asset Management segment. We continue to innovate in this area, for example through the development of our Global Transformation Range of funds.
The following commentary provides a more detailed review of our financial results and the development of our AUM, which is a key driver of our performance.

**Assets under management**

Our AUM increased by £74.2 billion, or 15%, to close 2020 at a record high of £574.4 billion (2019: £500.2 billion).

In 2020, we generated £42.5 billion of net inflows from clients (2019: £43.4 billion), including £28.2 billion of assets from the Scottish Widows mandate into our Solutions business. Acquisitions added £3.3 billion of assets across Private Assets & Alternatives and Wealth Management and we generated investment returns, after foreign exchange, of £28.4 billion for our clients.

The composition of our AUM and the nature of the movements is an important driver of our results. The impact of the risk-off environment at the start of the year and the growth in our Solutions business impacted the mix of our AUM by increasing the weighting of lower margin products.

In the Asset Management segment, AUM increased by £68.9 billion, or 16%, to £502.4 billion at 31 December 2020 (2019: £433.5 billion). We generated £40.8 billion of net new business from clients in 2020 and the acquisition of a majority stake in Pamfleet contributed £0.6 billion.

Within Private Assets & Alternatives, we saw encouraging demand in our Private Assets business with net inflows of £1.7 billion principally across real estate, infrastructure finance and private equity. These strong flows were partially offset by outflows from our liquid alternatives range, which was more impacted by the market environment and experienced net outflows of £1.2 billion.

Our Solutions business generated £43.4 billion of net inflows, with several notable wins in addition to the latest tranche of the Scottish Widows mandate. Solutions strategies are designed to provide clients with an outcome over the life of the product and whilst they attract lower fee margins than more traditional products, they typically have greater longevity.

Our Institutional AUM grew 11%, driven by £15.7 billion of investment returns we generated for our clients, net of currency movements. We also saw an increase in client demand in this business area as gross inflows increased by £7.7 billion.

Our Mutual Funds business was impacted by the risk-off environment at the start of the year, with net outflows of £48.8 billion in the first six months. This sentiment changed in the second half of the year, as we generated net inflows of £1.7 billion.

In the Wealth Management segment, we achieved £1.7 billion of net new business in 2020. Net inflows of £1.2 billion from our Schroders Wealth business and £0.7 billion through Benchmark Capital were partially offset by £0.2 billion of outflows from SPW. The performance of SPW was impacted by Covid-19 related Lloyds branch closures which led to lower client referrals.

**Asset Management results**

Asset Management net income was slightly higher than the prior year at £1,786.9 million (2019: £1,781.2 million), although net operating revenue decreased 1% to £1,747.2 million (2019: £1,763.1 million). This decrease was principally due to lower revenue margins as the mix of business was impacted by markets and the strong flows we generated in our Solutions business. Despite the challenging market conditions, particularly in the first half of the year, our investment performance was strong with 72% of assets outperforming over three years. As a result, performance fees increased to £85.8 million (2019: £42.9 million). We also benefited from £8.8 million of net carried interest (2019: £29.3 million) despite Covid-19 impacting private asset transactions. Real estate transaction fees were particularly impacted, reducing by £16.0 million to £3.4 million as the number of new property transactions fell.

As a result, Private Assets & Alternatives net operating revenue reduced by £6.9 million to £293.3 million (2019: £300.2 million). The reduction in performance related fees and transaction fees more than offset the acquisition of BlueOrchard which completed in October 2019 and contributed £30.2 million of additional revenues in 2020. The net operating revenue margin, excluding performance and transaction related fees, was 62 basis points (2019: 63 basis points).

Net operating revenue in our Solutions business increased 12% to £253.0 million (2019: £226.1 million) reflecting the strong net new business we generated. The net operating revenue margin fell in line with our expectations to 15 basis points (2019: 21 basis points). This decrease reflects the impact of lower fee rates on more recent mandates that are individually significant in size.

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

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### Movements in AUM

<table>
<thead>
<tr>
<th>£bn</th>
<th>Private Assets &amp; Alternatives</th>
<th>Solutions</th>
<th>Mutual Funds</th>
<th>Institutional</th>
<th>Asset Management</th>
<th>Wealth Management</th>
<th>Group Total</th>
<th>Associates</th>
<th>Total Including Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2020</td>
<td>46.1</td>
<td>192.3</td>
<td>104.2</td>
<td>159.8</td>
<td>502.4</td>
<td>72.0</td>
<td>574.4</td>
<td>88.6</td>
<td>663.0</td>
</tr>
<tr>
<td>1 January 2020</td>
<td>44.2</td>
<td>142.8</td>
<td>102.4</td>
<td>144.1</td>
<td>433.5</td>
<td>66.7</td>
<td>500.2</td>
<td>69.2</td>
<td>569.4</td>
</tr>
</tbody>
</table>

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- Gross inflows
- Gross outflows
- Net flows
- Acquisitions
- Investment returns
- Transfers
In our Mutual Funds business, net operating revenue decreased by 7% to £686.4 million (2019: £734.8 million), although an increase in performance fees of £7.4 million partly offset the impact of lower average AUM. Excluding performance fees, the net operating revenue margin fell to 71 basis points (2019: 73 basis points) due to changes in mix as a result of the risk-off environment at the start of the year.

Performance fees in our Institutional business were also strong, up £34.8 million to £74.2 million (2019: £39.4 million). This increase more than offset the impact of lower management fees and resulted in net operating revenue of £514.5 million (2019: £502.0 million). The net operating revenue margin excluding performance fees fell to 31 basis points (2019: 32 basis points).

The decrease in overall Asset Management net operating revenue was partly offset by an increase in our share of profits from associates and joint ventures, which more than doubled to £49.5 million (2019: £23.5 million), with continued strong returns from our venture with Bank of Communications in China.

Operating expenses before exceptional items increased to £1,213.6 million (2019: £1,174.3 million) as the scale of our business grew, including through acquisitions. As a result, profit before tax and exceptional items decreased by 6% to £573.3 million (2019: £606.9 million).

Exceptional items reduced to £29.8 million (2019: £41.4 million), these costs principally relate to acquisitions, including amortisation of acquired intangible assets. After exceptional items, profit before tax decreased to £543.5 million (2019: £565.5 million).

**Wealth Management results**

Wealth Management net income increased by 24% to £382.7 million (2019: £309.6 million), driven by growth in management fees, which increased by £79.2 million to £332.4 million (2019: £253.2 million).

This was mainly a result of the full year impact of SPW, which was acquired in October 2019 and contributed an increase in management fees of £49.9 million in 2020. The Wealth Management segment includes our proportional share of the income and expenses of SPW on an individual account basis. The Consolidated income statement includes our share of the post-tax profits of SPW within Share of profit of associates and joint ventures. A reconciliation between the two different presentations is shown in the segmental note on page 112.

The remaining increase in management fees was principally due to a £15.7 million increase in Benchmark Capital due in part to the migration of SPW assets on to the Benchmark Capital platform. Net banking interest decreased to £14.1 million (2019: £24.0 million) as a result of the low interest rate environment. The net operating revenue margin excluding performance fees, fell from 59 basis points to 56 basis points due to lower net interest margins and changes in asset mix. Other income increased £8.3 million to £15.8 million (2019: £7.5 million), primarily due to an increased contribution from SPW of £7.5 million.

Operating expenses before exceptional items were £272.2 million, up 23% (2019: £222.1 million), including the proportional share of SPW costs. Profit before tax and exceptional items increased 26% to £110.5 million (2019: £87.5 million). Exceptional items within Wealth Management increased £1.1 million to £45.7 million mainly due to implementation and other costs in relation to the transformation and set-up of SPW. The remaining exceptional items mainly comprise costs incurred in relation to acquisitions, including amortisation of acquired intangible assets. After exceptional items, profit before tax increased to £64.8 million (2019: £52.9 million).

**Group segment results**

The Group segment comprises central management costs and returns on investment and seed capital. Net income for the Group segment increased by £13.2 million to £58.1 million (2019: £44.9 million). Gains on financial instruments increased by £29.3 million, including positive returns on seed capital. This more than offset lower interest income and lower income from associates, following the sale of our interest in RWC earlier in the year. Costs in the Group segment increased slightly to £39.6 million (2019: £38.1 million). This resulted in a profit before tax and exceptional items of £18.5 million (2019: £6.8 million). In 2020, we incurred exceptional items of £16.3 million (2019: £0.6 million). These expenses predominantly comprise real estate related costs, following our decision to reduce office space reflecting increased flexible working habits. After exceptional items, there was a profit before tax of £2.2 million (2019: £6.2 million).

**Financial strength and liquidity**

The Group’s net assets increased by £238.4 million during 2020 to £4,085.9 million (2019: £3,847.5 million).

The different forms of business that we conduct affect our total assets and liquidity. Certain assets managed on behalf of investors are recognised in the Consolidated statement of financial position, while others are not. The following table sets out how these assets are broken down between on-balance sheet assets and others that form part of our total AUM.
Reflecting these structures, the Group’s total assets increased to £21.7 billion at 31 December 2020 (2019: £21.3 billion). Excluding those assets that form part of AUM, the Group’s total assets increased to £6.0 billion (2019: £5.9 billion), principally as a result of retained profits being held to meet increased working capital requirements.

Investment capital represents surplus assets held in excess of operating requirements. It is managed in accordance with limits set by the Board, with the aim of making a low volatility return. The Group Capital Committee supports the Chief Financial Officer in managing the investment capital portfolio with consideration of potential capital and liquidity demands, including dividend distributions.

Investment capital is mainly comprised of investment-grade corporate bonds and investments in our own pooled funds. During 2020, investment capital reduced by £139 million to £417 million (2019: £556 million), primarily as we used capital to fund acquisitions, and seed new investment strategies and co-invest alongside our clients. Our seed and co-investment capital increased from £578 million at 31 December 2019 to £612 million at the end of 2020.

Other assets increased by £343 million to £5,008 million (2019: £4,665 million). This represents assets that support our ongoing operating activities in the form of working capital, including assets that are inadmissible for regulatory purposes.

In 2020, we continued to invest in the future growth of the business with several acquisitions, the most significant of which was the purchase of Sandaire. Acquisitions increased goodwill and intangible assets by £62 million, before amortisation and foreign exchange movements. We advanced our operational capabilities by investing further in our technology, resulting in additions to software assets of £74 million.

The Group’s liquidity and regulatory capital position remains strong. Further information on this is set out in note 20 of the financial statements.

Dividends
It is our policy to provide shareholders with a progressive and sustainable dividend, targeting a payout ratio of around 50%. The payout ratio is determined as the total dividend per share in respect of the year, divided by the Group’s pre-exceptional basic earnings per share. In line with this policy, the Board is recommending a final dividend of 79 pence per share (2019: 79 pence per share). It means a total dividend for the year of 114 pence per share (2019: 114 pence per share) and represents a payout ratio of 57% (2019: 57%).

In setting the dividend, the Board has regard to overall Group strategy, capital requirements, liquidity and profitability. This approach enables the Group to maintain sufficient surplus capital to take advantage of future investment opportunities while providing financial security to withstand possible risk scenarios and periods of economic downturn.

The distributable profits of Schroders plc are £2.9 billion (2019: £2.9 billion). The Group’s ability to pay dividends is, however, restricted by the need to hold regulatory capital and to maintain sufficient operating capital to support its ongoing business activities. Operating capital requirements include co-investments with clients and seed capital investments in our funds to support new investment strategies.

Circumstances that could adversely impact the Group’s ability to pay dividends in line with the policy include a combination of significantly increased costs and a prolonged deterioration in markets or performance leading to reduced revenues and a consequential increase in the ratio of total costs to net income. After deducting the regulatory capital requirement and regulatory capital buffer, there continues to be sufficient capital to maintain our current dividend level for at least three years before taking account of any future profits.

Overall, I am pleased with the results which demonstrate continued resilience in the context of the global pandemic and further progress against our strategic priorities. We believe that this will enable future growth once broader conditions normalise.

Richard Keers
Chief Financial Officer
3 March 2021

Our approach to tax
We aim to comply with both the spirit and letter of the law and are committed to conducting our tax affairs in an open and transparent way.

This means that we comply with our tax filing, reporting and payment obligations globally. We also seek to maintain good relationships with the tax authorities in the jurisdictions in which we operate. This may take the form of discussing key developments in our business and the potential impact of those developments on the amount of tax we pay. From time to time, we view on the appropriate tax treatment in any given situation may differ from those of the tax authorities. Where this occurs, we work constructively and proactively to achieve an early resolution. We comply with the UK’s Code of Practice on Taxation for Banks and are treated as ‘low risk’ by HM Revenue & Customs.

We believe it is important that businesses behave responsibly and build trust within society regarding their role and contribution on tax. With this in mind, we support initiatives to improve international transparency on taxation matters, including the Organisation for Economic Co-operation and Development measures on country-by-country reporting and automatic exchange of information.

Our tax strategy, available at schroders.com/taxstrategy, sets out our approach to tax matters across the Group more generally. This strategy is reviewed and approved annually by the Audit and Risk Committee.

Taxes borne by the Group include corporate income tax on the profits arising in each country, indirect taxes such as value added tax on our expenses and payroll taxes on our employees’ remuneration. The total tax borne by the Group in 2020 was £245.9 million (2019: £245.7 million).

Companies also have an important role to play in collecting and administering taxes on behalf of governments, where the cost of tax is borne by others. This includes income tax and social security payments deducted from our employees’ remuneration and indirect taxes charged to our clients. These are taxes paid in addition to the taxes we bear as a business, which are referred to above. The total tax collected in 2020 was £244.4 million (2019: £244.4 million). The combined taxes borne by us as a business and the amounts collected by us on behalf of tax authorities in 2020 was £486.6 million (2019: £490.1 million).

Further information on taxes borne and collected can be found at https://www.schroders.com/en/about-us/corporate-responsibility/our-economic-contribution/