DELIVERING PERFORMANCE AND SUSTAINABLE GROWTH

The Group has enjoyed a successful year that has seen us deliver a very strong set of results.

Our strategic areas of focus, namely Private Assets and Wealth Management, continued to grow strongly. Alongside this, the return of risk appetite at the start of the year benefited our traditional equities offerings, which were in high demand.

We achieved a pre-exceptional profit before tax of £836.2 million, an increase of 19% on 2020 (2020: £702.3 million). Profit after tax and exceptional items was £623.8 million, 28% higher than the previous year (2020: £486.0 million).

In view of this growth, the Board recommends increasing the final dividend by 6 pence to 85 pence per share (2020: 79 pence per share). This means a total dividend for the year of 122 pence per share (2020: 114 pence per share), an increase of 8 pence, and a payout ratio of 50% (2020: 57%).

Growing our strategic areas of focus

As set out earlier in the Annual Report, a large part of our strategy is focused on the growth of both Private Assets and Wealth Management. These are higher margin businesses with greater longevity where we expect demand to remain strong. We have continued to make good progress in these areas.

During the year, we unified our specialist private assets offerings under the newly launched Schroders Capital brand. This showcases our entire private assets capability and underscores our ambition as a leading private markets business. The business continued to perform well, with particularly good growth in private equity, real estate and securitised credit, helping increase our Private Assets and Alternatives AUM by 16% to £53.7 billion (2020: £46.1 billion).

The more traditional parts of our Asset Management segment also delivered significant growth. Notably, we experienced high levels of demand in our Mutual Funds business area as a result of both strong investment performance and increased investor risk appetite at the start of the year. Overall, across our Asset Management segment, we generated £11.0 billion of net new business, which together with investment returns, enabled us to grow our Asset Management AUM to £534.0 billion (2020: £502.4 billion).

In Wealth Management, we continued to build out the regional presence of our UK high net worth brand Cazenove Capital through strategic hires and a focus on successful business owners. We also successfully integrated Sandaire which we acquired at the end of 2020, and expanded our Global Family Office Service. Our joint venture with Lloyds Banking Group, Schroders Personal Wealth (SPW), showed good progress, helped by the easing of Covid-19 related restrictions which enabled an increase in the number of referrals received from the Lloyds banking network. Overall, these factors contributed to net new business of £4.1 billion which, along with strong investment returns, drove an increase in AUM of 13%. AUM for the Wealth Management segment therefore closed at £81.2 billion (2020: £72.0 billion).

Developing our strategic global partnerships remains an important way for us to execute the Group's strategy. Our joint ventures and associates have again shown high growth, with AUM increasing by 31% to £116.4 billion (2020: £88.6 billion). Our long-standing venture with Bank of Communications in China contributed significantly to this thanks to strong flows into higher-margin equity products.

Overall, these developments, combined with strong investment returns, helped us increase our Group AUM by 10% to a record high of £731.6 billion (2020: £663.0 billion).

Delivering strong financial results

Our closing AUM figure is important in showing the scale and growth of the Group. Just as important is our average AUM, as this is key in understanding the development of our management fees through the year. As a result of the strategic developments set out above, our average AUM excluding joint ventures and associates increased by 15% to £597.0 billion (2020: £520.8 billion). This helped us generate £2,201.1 million of management fees, 16% higher than 2020 (2020: £1,889.7 million).

Performance fees and net carried interest grew to £126.3 million (2020: £95.7 million). This was not only due to the strong investment performance we generated for our clients, but also reflects the increasing scale of Schroders Capital. Overall, net operating revenue increased 17% to £2,403.1 million (2020: £2,059.6 million).

As set out earlier, our joint ventures and associates again showed strong growth. They delivered income, before exceptional items, of £88.2 million, an increase of 38% (2020: £64.1 million). We had net gains on financial instruments and other income of £77.5 million (2020: £55.5 million). This was largely due to strong returns from our proprietary investments. These principally comprise seed capital, co-investments and our investment capital portfolio. These gains contributed to net income before exceptional items increasing 18% to £2,568.8 million (2020: £2,179.2 million).

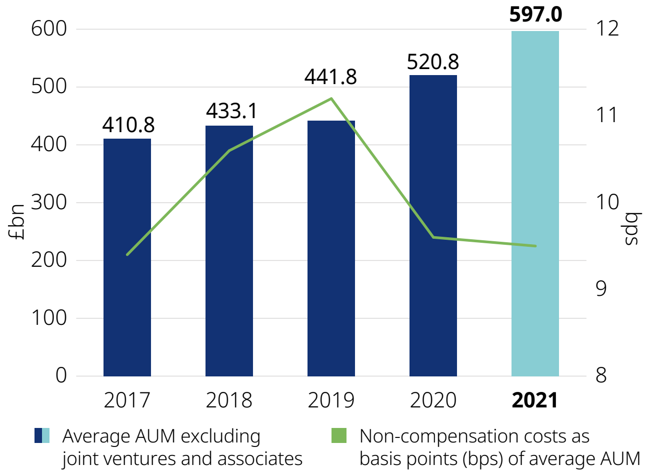
This increase in net income was partly offset by higher operating expenses, reflecting the growth in the overall size of the business. Despite the organic investment we have made in strategic growth areas such as Wealth Management and China, we were able to keep our compensation ratio stable at 45%. This includes the cost of our Share in Success award made at the end of the year. This was a one-off grant of Schroders shares to all our employees which enables them to share in the future success of the business. The award recognises the fantastic effort our people have put into driving our strategy forward.

Our non-compensation costs before exceptional items were higher at £564.5 million (2020: £502.2 million). This was principally due to higher marketing expenses following the easing in Covid-19 related restrictions in the second half of the year, and increased IT costs. The increased IT costs reflect both higher depreciation due to the investment in our technology infrastructure we have made in recent years, and expenses incurred in the commencement of our cloud migration programme, the costs of which are not capitalised. Once implemented, the transition to the cloud is expected to result in increased operational agility as well as cost savings.

Given the nature of our business, understanding non-compensation costs as a percentage of our AUM provides a good indicator for our operational leverage. As shown in the chart below, this has fallen in recent years and continued to reduce slightly in 2021, despite the investment we are making in our transition to the cloud. This operational leverage is further illustrated in the reduction of our total cost to income ratio which fell from 68% to 67%.

Overall, these movements resulted in a total profit before tax and exceptional items of £836.2 million (2020: £702.3 million). Exceptional items mainly relate to acquisition-related costs, including the amortisation of intangible assets. In 2021, the total cost of exceptional items was £72.1 million (2020: £91.8 million), which meant a profit before tax of £764.1 million, up 25% on 2020. Profit after tax was £623.8 million (2020: £486.0 million).

Non-compensation costs as basis points of average AUM (excluding joint ventures and associates)



Leveraging our strong capital position

The sustainability of our business model has helped us build a strong capital position in recent years, with a capital surplus of £1,454 million as at 31 December 2021 (2020: £1,231 million). This enables us to invest in both organic and inorganic opportunities. In 2021 we announced three strategic acquisitions, namely River and Mercantile's solutions business; Cairn Real Estate; and Greencoat Capital (subject to regulatory approval). As further explained in the Group Chief Executive's statement, these acquisitions support our strategy of growing our capabilities in Solutions and Private Assets. The impact of these acquisitions is not reflected in the year-end capital position as the transactions were yet to complete at that date.

Leading by example on climate change

Underpinning these strong results is our commitment to sustainability. The Group Chief Executive's statement sets out the progress we have made in bringing sustainability into the heart of the way we invest on behalf of our clients. We joined the Net Zero Asset Managers initiative in 2020, which has now grown to over 200 signatories representing more than $57 trillion of assets, underlining the important role that we as active asset managers can play in tackling the impact of climate change to align to limit global warming to 1.5°C. It is just as important that we lead by example in the way we approach our own operations.

Further demonstrating our commitment regarding climate change, we have become one of the first asset managers to have our emissions targets approved by the Science Based Targets initiative. These targets define our longer-term roadmap towards achieving the goal of net zero emissions by 2050 or sooner. Further information on this can be found on pages 32-34.

The year has demonstrated the importance of remaining focused on our long-term goals. We have delivered growth in the strategically important areas of private assets and wealth, while continuing to build a resilient global operating platform and advancing our work in sustainability. This has enabled us to deliver a strong set of results and ultimately, deliver strong investment performance for our clients as we accelerate positive change for all of our stakeholders.

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, our views 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 www.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 2021 was £308.9 million (2020: £245.9 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 2021 was £268.8 million (2020: £240.7 million). The combined taxes borne by us as a business and the amounts collected by us on behalf of tax authorities in 2021 was £577.7 million (2020: £486.6 million).

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

Movements in AUM

£bn	Private Assets and Alternatives	Solutions	Mutual Funds	Institutional	**Asset Management**	**Wealth Management**	**Total (excluding joint ventures and associates)**	Joint ventures and associates	**Group Total**
Opening AUM	**46.1**	**192.3**	**104.2**	**159.8**	**502.4**	**72.0**	**574.4**	**88.6**	**663.0**
Gross inflows	13.1	19.7	48.3	25.3	106.4	11.0	117.4	199.1	316.5
Gross outflows	(6.2)	(21.2)	(40.2)	(27.8)	(95.4)	(6.9)	(102.3)	(178.9)	(281.2)
Net new business	**6.9**	**(1.5)**	**8.1**	**(2.5)**	**11.0**	**4.1**	**15.1**	**20.2**	**35.3**
Acquisitions	–	–	–	–	–	–	–	0.1	0.1
Investment returns[1]	0.7	7.3	3.7	8.9	20.6	5.1	25.7	7.5	33.2
Closing AUM	**53.7**	**198.1**	**116.0**	**166.2**	**534.0**	**81.2**	**615.2**	**116.4**	**731.6**

1. Includes currency movements which decreased AUM by around £3.6 billion.

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 £68.6 billion, or 10%, to close 2021 at a record high of £731.6 billion (2020: £663.0 billion). We achieved £35.3 billion of net inflows and generated investment returns, after foreign exchange, of £33.2 billion for our clients.

In the Asset Management segment, AUM increased by £31.6 billion, or 6%, to £534.0 billion at 31 December 2021 (2020: £502.4 billion). We generated £11.0 billion of net new business.

Within Private Assets and Alternatives, we generated strong demand in Schroders Capital which had net inflows of £7.4 billion, with particularly strong growth across our securitised credit, private equity and real estate capabilities. This excludes £2.5 billion of client commitments in private debt funds where we only earn fees once the capital is invested. These commitments will be recognised as net new business as we deploy the capital.

We had net outflows of £1.5 billion in our Solutions business. This principally reflects expected attrition of the Scottish Widows mandate. Solutions remains a core part of our growth strategy as underlined by the acquisition of River and Mercantile's UK solutions business, which will supplement our growth ambitions for this business area.

We experienced net outflows of £2.5 billion in our Institutional business, although this was more than offset by £8.9 billion of investment returns we generated for our clients, net of currency movements.

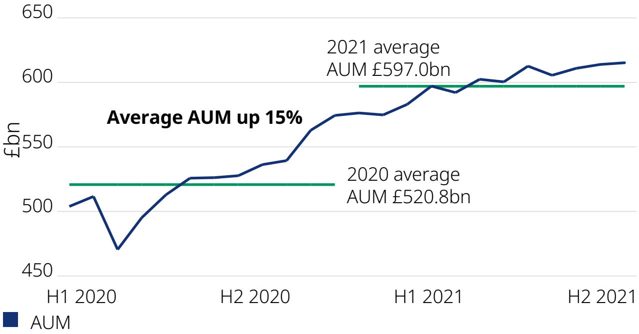
Our Mutual Funds business performed very strongly, with a high level of demand on the back of good investment performance and increased risk appetite at the start of the year. We achieved net new business of £8.1 billion largely into equity products, and generated £3.7 billion of investment returns for our clients.

Our Wealth Management segment also had strong growth in AUM. We generated £4.1 billion of net new business in 2021, with £3.1 billion from our Schroder Wealth business, and good growth in both Benchmark and SPW. Growth in AUM was further enhanced by the £5.1 billion investment returns we generated in this segment.

Our joint ventures and associates also continued their positive growth trajectory of recent years. Our existing ventures with Axis Bank in India and Bank of Communications in China generated combined net flows of £19.5 billion, with particularly strong growth in higher-margin equity products.

The chart below shows how these movements drove the evolution of our AUM (excluding joint ventures and associates) through the year, resulting in a 15% increase in average AUM, the key driver of our management fees.

Average AUM excluding joint ventures and associates



Asset Management results

Asset Management net income before exceptional items was significantly higher than the prior year at £2,138.0 million (2020: £1,786.9 million), with net operating revenue increasing 17% to £2,043.1 million (2020: £1,747.2 million). This increase was principally due to higher average AUM as a result of both robust net new business and the investment returns we generated on behalf of our clients.

Performance fees increased to £94.2 million (2020: £85.8 million) as a result of our strong investment performance. Of these, £12.1 million (2020: £0.7 million) were earned in Private Assets and Alternatives, where strong investment performance also enabled us to generate £31.9 million of net carried interest (2020: £8.8 million). Real estate transaction fees grew significantly to £11.1 million (2020: £3.4 million) as the number of property transactions returned to more normalised levels following the onset of the global pandemic. As a result, Private Assets and Alternatives net operating revenue increased by 20% to £350.7 million (2020: £293.3 million). The net operating revenue margin excluding performance fees and carried interest was flat at 62 basis points (2020: 62 basis points).

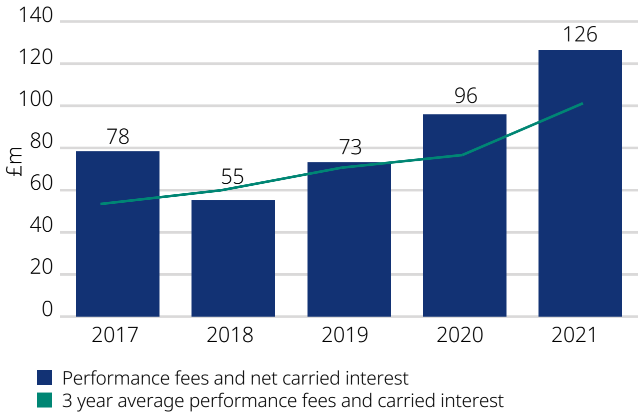
Net operating revenue in our Solutions business grew 9% to £276.4 million (2020: £253.0 million) as a result of higher management fees due to higher average AUM. The net operating revenue margin reduced in line with our expectations to 14 basis points (2020: 15 basis points).

The growth in AUM in the Mutual Funds business area resulted in management fees increasing by 20% to £811.6 million (2020: £675.5 million). Net operating revenue therefore increased to £815.0 million (2020: £686.4 million). Excluding performance fees, the net operating revenue margin increased to 72 basis points as a result of the change in mix of AUM towards higher margin equity products (2020: 71 basis points).

In our Institutional business, management fees increased by 19% due to higher average AUM and performance fees remained robust at £78.7 million (2020: £74.2 million). This resulted in net operating revenue of £601.0 million (2020: £514.5 million), an increase of 17% on the previous year. The net operating revenue margin excluding performance fees was stable at 31 basis points (2020: 31 basis points).

The growth in overall Asset Management net operating revenue was further buoyed by an increase in our share of profits from joint ventures and associates, which grew by 49% to £73.9 million (2020: £49.5 million), with continued strong returns from our long-standing venture with Bank of Communications in China.

Performance fees and carried interest



Operating expenses before exceptional items increased to £1,424.8 million (2020: £1,213.6 million). This reflects the increase in the scale of the business. As a result, profit before tax and exceptional items increased by 24% to £713.2 million (2020: £573.3 million).

Exceptional items of £40.2 million increased by 35%, principally due to higher acquisition related costs. After exceptional items, profit before tax increased to £673.0 million (2020: £543.5 million).

Wealth Management results[1]

Wealth Management net income increased by 13% to £433.7 million (2020: £382.7 million), as we generated good overall growth in Schroder Wealth, Benchmark and SPW. Management fees grew by £64.0 million to £373.1 million (2020: £309.1 million), which more than offset a small reduction in net banking interest as a result of the low interest environment. The net operating revenue margin excluding performance fees reduced to 55 basis points (2020: 56 basis points). This was principally due to lower net banking interest and transaction fees.

Operating expenses before exceptional items were £305.1 million, up 12% (2020: £272.2 million), in part reflecting the investment in this strategic growth area including through the build-out of our UK regional presence during the year. Profit before tax and exceptional items increased 16% to £128.6 million (2020: £110.5 million).

Exceptional items within Wealth Management decreased by £13.9 million to £31.8 million mainly due to the acquired Cazenove intangible assets becoming fully amortised in June 2021. The remaining exceptional items mainly comprise costs incurred in relation to acquisitions, including amortisation of other acquired intangible assets. After exceptional items, profit before tax increased to £96.8 million (2020: £64.8 million).

Group segment results

The Group segment comprises central management costs and returns on investment and seed capital. Net income for the Group segment decreased by £9.5 million to £48.6 million (2020: £58.1 million). Costs in the Group segment increased to £53.6 million (2020: £39.6 million) including charitable contributions of £4.9 million (2020: £4.9 million). This resulted in a loss before tax of £5.0 million (2020: profit of £18.5 million).

1. The Wealth Management segment includes our proportional share of the income and expenses of SPW on an individual account line basis. The Consolidated income statement includes our share of the post-tax profits of SPW within Share of profit of joint ventures and associates. A reconciliation between the two different presentations is shown in the segmental note on page 109.

Financial strength and liquidity

The Group's net assets increased by £339.8 million during 2021 to £4,425.7 million (2020: £4,085.9 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.

	Statement of financial position £bn	Not recorded in the Statement of financial position £bn	Total £bn
Life Company	13.5	–	13.5
Other Asset Management	–	520.5	520.5
Total Asset Management	13.5	520.5	534.0
Wealth Management	3.7	77.5	81.2
Joint Ventures and Associates	–	116.4	116.4
Total AUM	**17.2**	**714.4**	**731.6**
Investment capital	0.8		
Seed and co-investment capital	0.7		
Other assets	5.6		
Total Group assets excluding clients' investments	7.1		
Total Group assets	**24.3**		

Within Asset Management, assets that are managed for clients are not generally owned by the Group and are not recorded in the Consolidated statement of financial position. However, certain clients invest through life insurance policies that are managed by the Life Company. The assets backing these policies are owned by the Life Company and are included in the Consolidated statement of financial position along with a matching policyholder liability.

Wealth Management principally provides investment management, wealth planning and financial advice, platform services and banking services. Those subsidiaries that provide banking services are legally responsible for the banking assets and liabilities. They are therefore included in the Consolidated statement of financial position. The assets are managed to earn a net interest margin with consideration of the liquidity demands that may arise from clients.

Reflecting these structures, the Group's total assets increased to £24.3 billion at 31 December 2021 (2020: £21.7 billion). Excluding those assets that form part of AUM, the Group's total assets increased to £7.1 billion (2020: £6.0 billion), principally due to both the impact of a greater number of funds requiring consolidation, and 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.

As at 31 December 2021, investment capital is mainly comprised of cash, cash-like funds and other funds managed by the Group. During 2021, investment capital increased by £421 million to £838 million (2020: £417 million) and our seed and co-investment capital increased to £666 million (2020: £612 million).

Other assets support our ongoing operating activities in the form of working capital, including assets that are inadmissible for regulatory purposes.

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, and due to the strong growth in profits for the year, the Board recommends a final dividend of 85 pence per share (2020: 79 pence per share), an increase of 6 pence per share. It means a total dividend for the year of 122 pence per share (2020: 114 pence per share), up 8 pence per share representing a payout ratio of 50% (2020: 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 £2.8 billion (2020: £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.

There are certain circumstances that could adversely impact the Group's ability to pay dividends in line with the policy. These 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.

Overall, I am pleased with these results which demonstrate significant progress against our strategic priorities. We believe that our focus on long-term goals and strong investment performance continues to provide a sound platform for future growth.

Richard Keers
Chief Financial Officer

2 March 2022