



LOOKING AHEAD FROM A POSITION OF STRENGTH

Our industry has been disrupted over recent years, and a polarisation between the winners and losers has emerged. A major influence has been the increasing importance of sustainability. In the past our industry was focused on just two outputs: investment performance and the risk taken to achieve this performance. The owners of assets, our clients, are rightly now demanding a new perspective, a third factor – impact. The impact on society of the companies we invest in is of material importance. We are focused on delivering excellent risk-adjusted investment performance and are doing this in a manner which aims to improve the world in which we live. The progress on many fronts is pleasing but we are a restless and forward-looking organisation. Whilst today's successes are celebrated, we also use them to set the bar for tomorrow.

Today, our 20-year outlook is dominated by the challenge of decarbonisation. We have published detailed plans explaining how we, as a corporate entity, will reach net zero. Of perhaps greater significance, given the sheer scale of investments that we manage, is our plan to influence the companies in which we invest to reduce their impact on the planet. We hold sway with thousands of companies around the world.

We apply our influence every day; we apply it as bond and stock market investors but also as investors in infrastructure projects, of real estate, and as major private equity investors.

When reviewing 2021, we can be particularly proud with what we have achieved. The Group has generated record profits of £836.2 million (2020: £702.3 million) which represents a 19% increase versus the previous year.

Delivering strong investment performance

We have always strived to provide excellent investment returns for our clients and generate value for our shareholders.

Client investment performance*

2019	70%	70%	72%
2020	75%	72%	81%
2021	74%	79%	78%
	1 year	3 years	5 years

* For more information about how we calculate client investment performance see the glossary on page 186.

Our three years investment performance is a key performance indicator for the Group and I am pleased to see that it continues to improve, as 79% of our AUM outperformed their respective benchmarks. This is helped by our culture at Schroders where ideas and decisions are challenged and tested openly. Each desk is also supported by the science of the Data Insights Unit and the in-depth knowledge of our ESG specialists. Taken together it gives us a petri dish for bold decision-making.

Tilting our business towards the fast-flowing waters of the industry

The foundations for our position today were laid a number of years ago, when we sought to anticipate the challenges faced by traditional asset managers and set out plans to accelerate our investment to drive future growth. This included developing new Private Asset capabilities, expanding our wealth business and materially overhauling the product offering in our Asset Management business. We have invested heavily in expanding our geographic footprint, particularly in China and other emerging markets, and set about building new partnerships such as that with Lloyds Banking Group. We recognise that to be competitive we require a strong technology platform, a deep ability to gather and analyse data and a passionate desire to deliver investment performance for our clients.

Over the last five years, our AUM has grown from £453.6 billion to £731.6 billion, which represents an impressive compound annual growth rate of 10%. Once again, our organic growth has been strong. Indeed, almost every channel and region showed good organic growth, despite the disruption that is evident in many parts of the industry. We attracted net new business of £35.3 billion, with strong contributions from our range of mutual funds, private asset products, wealth management offering and our various partnerships, predominantly in China and India.

AUM growth year-on-year

10%

This progress has been made in the grip of the Covid-19 pandemic. I would like to pay a very sincere tribute to our employees who have contributed so much during such a disrupted period. Our strong corporate culture is a sustaining competitive advantage, and its strength has been hugely evident over the past two years. In the same spirit of partnership, we have been able to share the success of the firm with our employees globally through the widespread award of shares. At the end of the year, a staggering 84% of employees were shareholders in the firm, ensuring that the alignment of interest across all stakeholders is embedded in our structure.

Reaping the rewards from our organic investments

2021 was a year when several growth drivers came together. Developed equity markets posted another year of strong returns, whilst the bond markets weakened and concerns about inflation rose. We came into the year with strong investment performance and managed to sustain this for another year. Our new products saw good client demand, and the investments we had made in increasing our geographic footprint also paid off.

Schroders has found success in developing close partnerships with local champions around the world, and many of our strong country positions owe much to these relationships. We celebrated 50 years of business operations in Hong Kong, having started there in partnership with the Kadoorie family and Standard Chartered. Today we have important strategic partnerships in several countries: with Bank of Communications in China, Axis Bank in India, Nippon Life in Japan, Hartford Funds in the US and Lloyds Banking Group in the UK. We deeply value these strategic partnerships which have all contributed to our progress.

“As a UK PLC and a global investor, we have a fundamental role to play in decarbonising the economy.”

Last year, we saw good growth across all regions. We have been reaping the rewards from relatively new areas of strategic focus, such as Latin America, Israel and our US institutional businesses.

In our EMEA markets, we saw strong contributions from clients based in Central and Emerging Europe, the Middle East and Israel. These are some of our newer client relationships and they have contributed a combined net new business of over £1.0 billion. We also saw good contributions from our wholly-owned China business, India, Thailand and Malaysia, reaching nearly £1.0 billion of net new business. In the US, our net sales continue to benefit from our long-standing relationship with Hartford, which provides a diverse set of actively managed mutual funds to advisers and clients. Net new business from North American clients reached a total of £3.2 billion, which contributed to AUM reaching nearly £90 billion. Latin America, another region where we foresee key geographic expansion, has also performed strongly, with £2.1 billion of net new business. In addition, our Asset Management partnerships contributed £20.2 billion of net new business in 2021.

Over the past three years, we have invested heavily in our Global Transformation product range. We have been amongst the most active of all asset managers in revitalising our product range to make it appropriate for our clients' demands. We now have a broad offering of thematic and sustainability funds which attracted high levels of net new business last year as they delivered competitive investment performance. Our thematic range achieved net new business of £4.4 billion in 2021. This is a great result and an example of how the organic investments we have made in our business over the last few years are now bearing fruit.

We have also revamped our European fund range to comply with new regulation. I sincerely believe that in several years' time, every product will be ESG compliant by default, as this is where client sentiment is turning. We have reclassified a number of funds in our European fund range as either Article 8 or Article 9 under the EU's Sustainable Finance Disclosure Regulation (SFDR). These products have attracted good client demand of £5.7 billion and have grown their AUM to £60.5 billion at the end of 2021.

We set out to broaden our investment capabilities towards private assets several years ago and have made a number of bolt-on acquisitions. Having spent much time and effort integrating these businesses, I am delighted at the contribution Schroders Capital is making. Net new business flows were over £7.4 billion in 2021, mainly driven by high demand for securitised credit, private equity and real estate.

Our Wealth Management business also contributed meaningfully, as net new business exceeded 5% at £4.1 billion. Our AUM reached £81.2 billion, as all franchises generated positive net new business. We have several strategic initiatives underway, such as building our presence outside of London and South-East England as well as growing Schroders Personal Wealth, our partnership with Lloyds Banking Group.

It is important to note that none of these numbers would have been achieved had we not made the decision to invest in our business to generate future growth.

The virtuous cycle of investing for growth

We defined our strategic growth areas in 2016, as we recognised that there were some key changes we had to make to address the challenges our traditional asset management business was facing. Firstly, we set out to grow our Wealth Management segment due to its high client longevity and proximity. We have grown the business from £31.6 billion at the end of 2015 to £81.2 billion now. We have made a number of acquisitions over the last few years in this area and I believe there is considerable room for further growth. At our capital markets day in October, we stated that our ambition was to achieve net new business growth of at least 5% per annum from 2022. This will be an important driver of future growth. We foresee our Wealth Management AUM reaching £115 billion by 2025, which will also be supported by market growth and acquisitions. We made a good start by generating net new business of £4.1 billion in 2021 or put another way, 5.7% of opening AUM.

Secondly, we set out to grow our private markets capabilities, which we built through a series of acquisitions. These businesses are now unified under one brand called Schroders Capital, which we launched in mid-2021. Given the high quality of the underlying businesses which are backed by Schroders' global brand, our operational strength and global distribution footprint, the net new business opportunities are quite remarkable. We have grown twice as fast as the market since 2016 through acquisitions and organic investments with the ambition to double our AUM again by 2025. To achieve that, Schroders Capital is aiming to generate strong net new business flows over the coming years.

Our focus on sustainability has been relentless – we believe this will be a defining attribute of success over the next 20 years. Our analytical capabilities have contributed to us becoming leaders in ESG measurement through our proprietary tools. Recognising that social impacts are becoming financial costs, we developed SustainEx™, a tool that scores every company based on the impacts that company is having on society and the environment.

This information influences the decision we make on which companies we invest in. It also puts us in a strong position to engage effectively with them. Furthermore, we can demonstrate the sustainability profile and impacts of the portfolios we manage.

After a year in which we achieved strong net new business flows, we are looking to the future from a position of strength. It is hugely encouraging that this growth was delivered across all areas of strategic importance to us, such as thematic investing, private assets, wealth management and, of course, ESG. Apart from our Wealth Management business, these are areas which made limited contributions to our results three years ago. These areas are now having a significant impact on our flows. Looking internationally, I have been pleased by the performance of our joint ventures and associates such as Bank of Communications in China and Axis in India. Despite some macroeconomic challenges, both businesses have performed strongly.

Net new business

£35.3bn

Investing for future growth

We are pleased that many of our initiatives over past years are bearing fruit. But we are not just harvesting; we are still planting and planning for a brighter future for us, our clients, investors and our planet. I truly believe that using positive cashflow generated by the Group to invest in further growth gets the business into a virtuous circle of strong performance. Hence, we have taken this opportunity to reinvest into our business for further growth initiatives.

Assets under management

£731.6bn

This includes our investments in China, where we are on track to build our wholly-owned fund management company and our wealth management company venture with Bank of Communications. Our wealth management company venture with Bank of Communications, received regulatory approval to commence business operations in January 2022. Through our engagement, we can contribute to the process of rapid modernisation of China's investment markets, helping Chinese families and savers to achieve more financial security and assisting Chinese businesses in factoring sustainability increasingly into their business models, in line with Chinese and global climate policy goals.

Having a dedicated ESG team in-house enables us to put ESG at the heart of all our investment decisions. Aside from our dedicated ESG team, we have also increased the number of people across the firm who have a clear focus on sustainability, specifically in our product and sales teams. We continue to build upon our success and launched a further 14 sustainable funds in Europe last year with more to come in 2022.

Elsewhere, we have also announced the acquisition of three businesses, which are all an excellent cultural fit and provide strong follow-on growth potential.

We announced the acquisition of River and Mercantile's UK Solutions business, which is a leader in UK fiduciary management and completed the acquisition on 31 January 2022. It was one of the first businesses to set up in this space in the UK market and is a specialist in solving difficult problems for pension trustees. The business comes with highly talented people who have generated strong growth over the past few years. We believe that the Schroders brand, our position in the pensions market in the UK and our technology will create an even stronger business proposition. It fits our strategy of growing solutions and getting closer to end clients. Upon completion, the acquisition will add £43.1 billion to our existing Solutions business.

In order to further strengthen our Private Asset capabilities, we also announced the acquisition of Cairn Real Estate, a Dutch real estate specialist with €1.3 billion of AUM. The acquisition, which completed on 31 January 2022, will expand Schroders Capital in a key European growth market.

“I truly believe that using positive cash flow generated by the Group to invest in further growth gets the business into a virtuous circle of strong performance”

We also announced that we reached agreement to acquire a 75% interest in Greencoat Capital, a leader in European renewables. As at the end of 2021, the business had £6.8 billion of AUM and was growing rapidly in one of the most relevant markets of the future, supplying the world with assets which are critical to achieve net zero and global climate goals.

We are excited about the inorganic investments we were able to announce in 2021 and are looking forward to working with our new colleagues from River and Mercantile, Cairn Real Estate and Greencoat Capital.

We will also continue to lead on climate change solutions with the crucial aim of helping clients to decarbonise their portfolios. We have entered into a pioneering investment partnership with Conservation International that will channel capital into conservation projects. Clients will be able to offset carbon emissions, protect biodiversity and support indigenous communities whilst making a return.

Leading the transition to a sustainable world

On a broader note, 2021 has left me optimistic. The investment industry has a purpose beyond profit and investment returns. It is no longer just about securing our clients' financial futures; it is also about securing a better future for all stakeholders.

In climate change, the world faces an enormous existential challenge. Rather than being part of the problem, the financial services industry is becoming part of the solution. As an industry, we must step up and seize the opportunity. Where and how capital is deployed will be crucial in determining the pace at which the world fights climate change. Too often capitalism is the object of climate debate criticism, when its raw power could be targeted on the aim of capping temperature increases at 1.5°C above pre-industrial levels.

In 2020, we became a founding member of the Net Zero Asset Manager (NZAM) initiative. We believe we have a fundamental role to play in supporting companies in their transition to net zero greenhouse gas emissions. We have published our own path to net zero, and I feel strongly that we must do this for both our business and our investments (see pages 32-34). In February 2022 our science-based targets were validated and provide a defined pathway to net-zero by 2050.

The next two decades will be crucial for climate change. It will also be a period of immense change for our industry. Savers will increasingly want to know the impact of their investments and will want portfolios that reflect, in detail, their world view.

The successes of today enable the investments required to create the capabilities for the long term. But those investments will also shape our future 20 years down the line.

I would like to thank Mike Dobson for his enormous contribution to the firm for more than 20 years. The firm was transformed under his leadership, and I am personally hugely grateful for his mentorship over the years as Chairman of the Board. I wish him every success for the future. I am also pleased to welcome Dame Elizabeth Corley who has already joined the Board as Chair designate. Elizabeth brings a wealth of industry experience, especially in sustainability and I am truly looking forward to working with her in the future to build on Schroders' success and create sustainable value for all stakeholders.

Peter Harrison

Group Chief Executive

2 March 2022