

Schroders

Annual Report and Accounts 2017





Contents

Strategic report

Schroders at a glance	2
Chairman's statement	8
Group Chief Executive's review	10
Market and opportunities	12
Our strategy for 2017 and beyond	14
Key performance indicators	16
Our business model	18
Business and financial review	20
Our people	28
Our impact on society	30
Key risks and mitigations	34

Governance

Board of Directors	44
Group Management Committee and Company Secretary	46
Corporate governance report	48
Nominations Committee report	54
Audit and Risk Committee report	56
Remuneration report	62
Directors' report	91
Statement of Directors' responsibilities	94

Financial statements

Consolidated financial statements	96
Schroders plc financial statements	145
Independent auditors' report	160

Shareholder information

Shareholder information	166
Five year consolidated financial summary	167
Glossary	168

2017 highlights

Profit before tax and exceptional items

£800.3m

(2016: £644.7m)

Profit before tax

£760.2m

(2016: £618.1m)

Total dividend per share

113p

(2016: 93p)

Basic earnings per share before exceptional items

226.9p

(2016: 186.3p)

Basic earnings per share

215.3p

(2016: 178.3p)

Total equity

£3.5bn

(2016: £3.2bn)



Annual General Meeting Our Annual General Meeting will be held at 11.30 am on 26 April 2018 at 31 Gresham Street, London, EC2V 7QA. Details of Alternative Performance Measures used throughout the Annual Report and Accounts can be found on page 168.

As a global active investment manager, we help institutions and individuals meet their financial goals and prepare for the future.

As the world changes, so do our clients' needs. That's why we have a long history of adapting to suit the times and keeping our focus on what matters most to our clients.

From pension funds and insurance companies to individuals, we work with a range of clients whose needs are as diverse as they are.

We are undoubtedly at an important crossroads for the asset management industry. There are significant shifts in market dynamics, product demand and technology.

So, in this world of variety and change, is it possible to deliver superior outcomes, tailored to meet individual client needs?

We believe it is.

It's what matters most to us – knowing and understanding our clients and their financial needs, and responding with relevant, actively-managed solutions that help them realise their financial goals.

It matters because not only does it provide future prosperity for our clients, but it also allows us to deliver consistent, sustainable earnings for our shareholders.

And that matters for the success of our business, our employees and the communities in which we operate.



A strong financial position matters, because focusing on the long term matters most

What makes us different is our long-term approach, whether it's investing in the future growth of the business, developing talent or building client relationships.

This long-term perspective comes from our ownership structure and strong capital base. It means we can remain focused on our strategy and take advantage of opportunities in any market environment.

We believe in the long-term benefits of active management for our clients. As responsible stewards of their capital, we can also deliver long-term benefits for society. These are responsibilities we take very seriously.

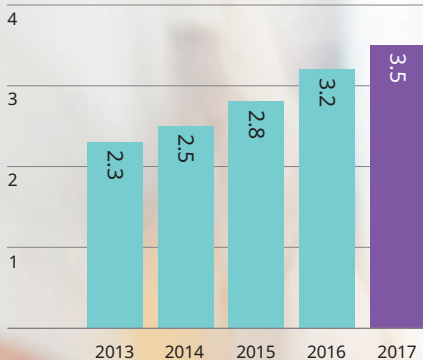


Read more in the business and financial review starting on page 20.

Total equity (£bn)

£3.5bn

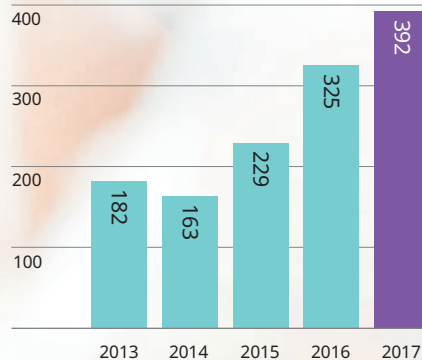
(2016: £3.2bn)



Seed capital and capital co-invested (£m)

£392m

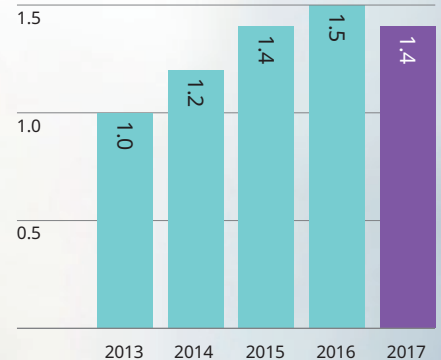
(2016: £325m)



Regulatory surplus capital (£bn)

£1.4bn

(2016: £1.5bn)





Building strong relationships matters, because being a trusted partner to our clients matters most

We build close, lasting relationships with our clients, which give us an in-depth understanding of their financial needs.

By combining this deep understanding with comprehensive, data-driven market intelligence, we are able to build a clear picture of future trends and client demand.

We use these insights to identify and build tailored solutions from our broad range of investment strategies or to develop a bespoke approach. Rather than taking a traditional view of asset classes, we have established a range of strategic capabilities which span the investment universe and provide outcomes that are suited to our clients across market cycles.

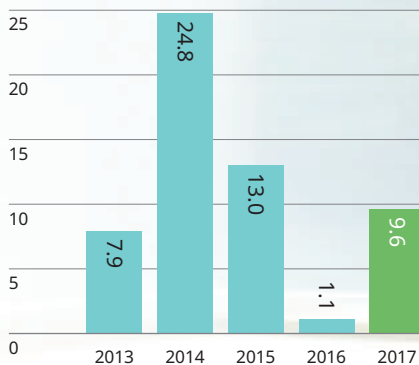


Read about our strategic capabilities in the market and opportunities section on page 12.

Net new business (£bn)

£9.6bn

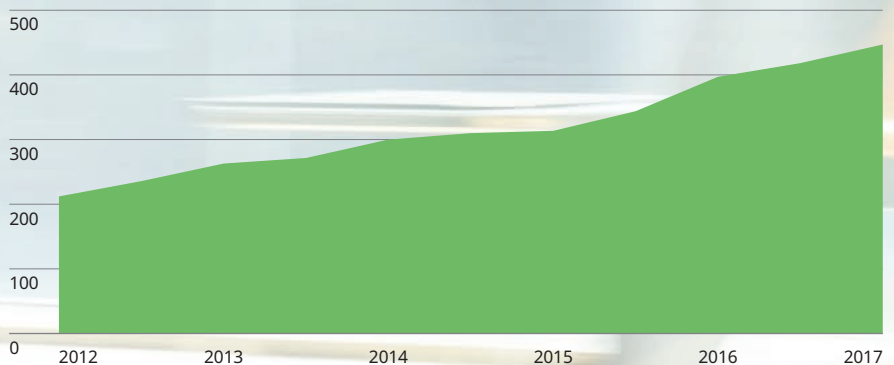
(2016: £1.1bn)



Assets under management and administration (£bn)

£447.0bn

(2016: £395.3bn)



Diversification matters, because building a stable, growing business matters most

We are a global business, managed locally. Our diverse workforce, based across six continents, means we understand what matters to our clients, wherever they are in the world.

On behalf of our clients, we invest in a broad range of asset classes across equities, fixed income, multi-asset, private assets and alternatives, as well as offering a range of wealth management services.

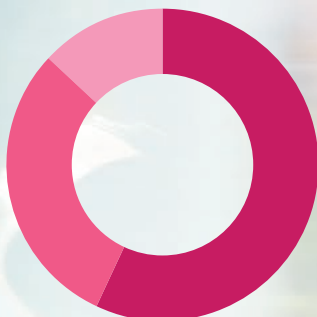
We have a long history of providing solutions for people and institutions around the world that help them meet their financial goals.

Our diversified business model allows us to build a robust, dynamic business that benefits our clients, our shareholders, our people and the communities in which we operate.

 Read more about employee diversity in the people section on page 28.

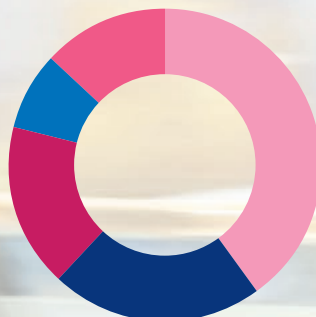
Assets under management and administration (£447.0bn)

Clients



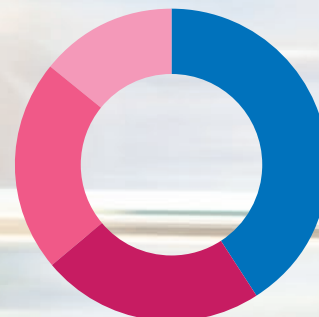
■ Institutional
■ Intermediary
■ Wealth Management

Asset classes



■ Equities
■ Multi-asset
■ Fixed Income
■ Private Assets & Alternatives
■ Wealth Management

Geographies



■ UK
■ Asia Pacific
■ Europe, Middle East and Africa
■ Americas

A clear view of our business

We have built an active investment management business with broad capabilities, specialist knowledge and deep experience. We are structured to ensure we consistently deliver globally but always retain the flexibility to meet local needs. This means that we can help our clients achieve their financial ambitions whatever priorities they have and wherever they are in the world.



Read more about how our business creates value in our business model on page 18.

Asset Management

We focus on providing investment management services to institutions and clients introduced by intermediaries throughout the client life cycle.

We manage segregated accounts and pooled vehicles for a range of institutions including local authorities, pension schemes, insurance companies and sovereign wealth funds. We also manage assets for clients introduced to us by a variety of intermediaries including financial advisers, private wealth managers and online platforms.

We gather the best talent and create specialist teams as well as encouraging individual thinking. Our 41 investment teams in 19 global locations actively manage investments across a broad range of asset classes including equities, fixed income, multi-asset, private assets and alternatives. This gives our clients a unique lens on the investment world and allows us to channel our investors' insights into the right outcomes for our clients' needs.

Our client service teams build lasting relationships with current and potential clients and intermediaries. This enables us to develop a clear view of our clients' financial objectives and how these will evolve and adapt.

The combination of these client relationships, market insights and a wide range of investment capabilities allows us to design bespoke products and services. We bring together individuals from across the business who are dedicated to understanding what our clients need to help them meet their financial goals. These solutions are designed to tailor fit our clients and are rigorously tested to ensure that they are fit for purpose.

Contribution to the Group's net income

£1,757.9m

Wealth Management

As a long-established wealth manager with a focus on preserving and growing our clients' wealth, we provide a full range of wealth management services.

We offer bespoke, discretionary and advisory investment services to private individuals, family offices, trusts, businesses and pension plans.

Our Cazenove Capital business offers discretionary fund management to external advisers and their clients. We are a leading charity fund manager in the UK. Our Benchmark Capital business also provides technology-led regulatory and administrative services for a network of independent financial advisers as well as providing platform services.

We are a leader in wealth management in the UK and have a strong presence in the Channel Islands and Switzerland.

Contribution to the Group's net income

£273.3m

Infrastructure

Our infrastructure functions provide critical services that support the business operations and include capabilities across Technology, Operations, Finance, Risk, Human Resources, Compliance, Legal, Governance, Internal Audit and Tax.

Group

The overall governance and corporate management of the Group is supported by the Chairman, Group Chief Executive and Chief Financial Officer as well as employees involved in corporate development and strategy, and the management of the Group's investment capital and liquidity.

Our people matter

Our ongoing success is driven by our people. Diversity of thought is in our heritage and we encourage our people to think differently and to innovate, but with a clear focus on developing our business for the benefit of both our clients and our shareholders. Our culture of collaboration means that each time we work with a client, we provide access to the expertise and energy of the entire firm.

 Read more about how we develop and retain a diverse pool of talent on page 28.

Global talent, local focus

We are a global business that is managed locally. Our teams are based around the world, close to our clients and to the markets in which we invest. This enables us to understand our clients' needs and deliver targeted outcomes. For over two centuries we have grown and developed our expertise to find solutions that meet our clients' goals.

A culture of innovation

We are known for our ability to challenge conventional thinking and anticipate what lies ahead. We have a long history of innovation, actively seeking better ways to deliver value for our clients.

Developing a deep pool of thought leaders

We seek out talented people who can understand and embrace different perspectives. Crucial to our continued success is the development and retention of people who can meet our clients' needs.

Employee opinion survey 2017

94%

proud to be associated with Schroders

90%

recommend Schroders as a good place to work

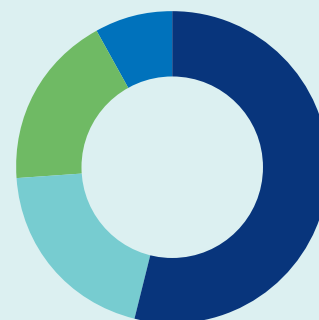
93%

believe Schroders behaves responsibly towards its clients

Our footprint

We have more than 4,600 employees who are central to our ongoing success.

Employees by geography



UK	54%
Asia Pacific	20%
Europe, Middle East and Africa	18%
Americas	8%

Global view of our people

4,619 people
29 countries

Our values

We strive for

Excellence

Being good at what we do is a powerful way to create value for our clients and secure a long-term future for our business.

We work with

Innovation

We challenge how things are done and anticipate future opportunities.

Teamwork

Delivering value for our clients takes collaboration and a healthy respect for individual skills.

We have

Passion

We're realistic about what we can achieve, but we're ambitious too and approach everything we do with energy and drive.

Integrity

Openness and responsibility fuel our long-term client relationships and consistently delivering on our promises sets us apart.

Building a sustainable business for the long term

Despite political uncertainties in many parts of the world, investment markets performed well in 2017 and it was a record year for Schroders. Profit before tax and exceptional items increased 24% to £800.3 million (2016: £644.7 million) and profit before tax was up 23% to £760.2 million (2016: £618.1 million). We generated net new business of £9.6 billion (2016: £1.1 billion) and assets under management and administration ended the year up 13% at £447.0 billion (2016: £395.3 billion).

Dividend

Our policy is to increase dividends progressively in line with the trend in profitability and to maintain a payout ratio of approximately 50%. Consequently, the Board will recommend to shareholders at the Annual General Meeting a final dividend of 79 pence per share (2016: 64 pence), an increase of 23%.

The final dividend will be paid on 3 May 2018 to shareholders on the register at 23 March 2018. The full year dividend of 113 pence per share (2016: 93 pence) represents an increase of 22%.

Our role as asset managers

As one of the largest investment firms in Europe we play a vital role in helping a broad range of investors meet their financial goals.

Our objective is to create and preserve value for institutions and individuals. In so doing, we actively channel capital to companies to support them in investing for growth and, as shareholders, we use our ownership rights on behalf of clients to engage with our investee companies in relation to strategy, risks, management succession, governance and environmental impact.

Through this we are aware that we can play a broader role, beyond our clients and shareholders, to the benefit of a wider range of stakeholders and we take this responsibility very seriously, applying the same standards to the management of our own business as we do to companies in which we invest.

The Board

In 2017, the Board focused on major topics including the five year strategic outlook for the business, risks to our strategy, product strategy, capital, talent and succession planning, and remuneration strategy. The Board pays great attention to the culture of the firm which we believe, built over many years, represents a key competitive advantage. We consider culture in many aspects of our Board discussions, including when reviewing acquisition opportunities where cultural alignment is a major factor in our decision making.

In November, the Board met in New York for an in depth review of our positioning and strategy in the North American market, which we believe represents an important growth opportunity for the Company.

Philip Howard, our Senior Independent Director and Chairman of the Remuneration Committee, will retire as a Director at the Annual General Meeting in April having completed nine years on the Board. Philip has been an exemplary non-executive Director, giving a great deal of his time to the business outside of Board meetings and providing a highly constructive level of challenge and support to the management team. We will miss his deep experience and insights and on behalf of the Board I would like to thank him for his very significant contribution.

We remain committed to providing an environment that is open, collaborative and based on merit, where everyone has the opportunity to realise their potential

We were delighted to announce earlier this year that Sir Damon Buffini would join the Board effective 1 February 2018. Damon has a track record of success in the field of private equity, supporting a wide range of growing companies, and we look forward to benefiting from his experience in relation to our overall range of growth opportunities and particularly in the field of private assets which is one of our priorities.

Ian King, who joined the Board in January 2017, will succeed Philip Howard as Senior Independent Director and Nichola Pease will succeed Philip as Chairman of the Remuneration Committee. Nichola's long experience in the asset management industry and her membership of the Remuneration Committee since 2014 will ensure a smooth transition for this key role.

Our people

Schroders' success is based on our diversified business model, our financial strength and in particular on our values and our people. We were therefore pleased to see that in our 2017 employee opinion survey 94% of our employees said they were proud to be associated with Schroders, and we again had very low levels of staff turnover.

We remain committed to developing the extraordinary pool of talent we have at Schroders across the world and providing an environment that is open, collaborative and based on merit, where everyone has the opportunity to deliver their best and realise their potential.

To all our employees, those who have been with the firm for many years and recent joiners, whether mid career or at the beginning of their career, I would like to extend the Board's thanks for their contribution to the achievement of a record year in 2017.

Michael Dobson

Chairman



Evolving our business in a changing world

I am pleased to present another year of good results for Schroders. We have seen assets under management and administration reach a new high of £447.0 billion, in part due to generating net new business from clients of £9.6 billion.

We have continued to strategically invest in the future growth of the business, while still maintaining strong cost discipline, improving the ratio of total costs to net income by three percentage points to 61%. Despite pressure on our revenue margins, we delivered record profit before tax and exceptional items of £800.3 million and profit before tax of £760.2 million.

More information on our financial performance is set out in the business and financial review starting on page 20.



During 2017, we have seen markets remain relatively benign, despite economic and political uncertainty. The year also saw clear challenges facing the asset management industry and specifically active investment managers such as Schroders. Despite the market environment we have attracted £9.6 billion of net new assets that we have invested on behalf of our clients.

As an active manager focused on the long term, I believe that we have a vitally important role to play as guardians of our clients' savings. Our overall purpose is to build their future prosperity by investing responsibly using actively-managed solutions to help them meet their future financial goals. This requires having a talented workforce with the right tools to ensure our active security selection and asset allocation delivers continued outperformance or the desired outcome.

Our clients trust us to deliver sustainable returns through periods of economic prosperity and uncertainty – and it is a responsibility that we take very seriously.

Stewardship

As responsible stewards of capital, we also have an important role to play in the wider economy. We actively allocate capital to companies across the world, promoting growth in all the sectors and regions where we invest.

We engage with companies in which we invest to improve levels of governance and to encourage greater sustainability. This engagement allows us to facilitate improvements in how these companies operate, and how they are governed, in the interests of both our clients and wider society. More information on our approach to sustainable investing can be found from page 30.

Client investment performance

Our key priority remains successfully and consistently delivering positive investment outcomes for our clients. Investment performance remained strong in 2017, with 74% of assets outperforming their stated comparator over a three year period. Over one year, 70% of assets outperformed and over five years, the figure was 84%. More information on how we measure investment performance is set out in the business and financial review on page 23. We strongly believe that we offer value for money for our clients and add real value to their portfolios.

During 2017, stock markets were unusually benign, rising steadily throughout the year. It is right not to expect this to continue. Valuations are high and there are new risks emerging in the structure of markets, notably the very large flows into Exchange Traded Funds. These have not previously been tested in more difficult market conditions.

A changing industry

There are a number of well-publicised challenges that we face as an industry. Pressures on fee margins have not abated and regulatory change and complexity continues to increase. The market share of passive products continues to grow and we are witnessing a number of major asset owners derisking their portfolios, moving away from public markets, or insourcing asset management capabilities.

Against this backdrop of uncertainty, the asset management industry is at a crossroads. We have seen some consolidation, as some of our peers have looked towards large-scale mergers or acquisitions to achieve greater diversification or to drive efficiencies.

We have decided to go in a different direction. We believe in the strength of the Schroders proposition and the ability to adapt our business for the future through investment in the right opportunities, whether supporting organic growth or in targeted acquisitions aligned with our strategic priorities.

Despite the challenges that exist, we see a number of reasons for optimism. There are opportunities which can drive the future growth of our business.

Our strategy is to invest for this growth, adapting and evolving how we run the firm to meet these challenges and embrace the opportunities.

We believe in the strength of our proposition and the ability to adapt our business for the future

Product strategy

One of the most well-publicised trends in asset management is the rise of passively-managed strategies. We understand that both active and passive products can have a role to play in clients' portfolios. However, we remain a firm believer in the value of active management, where investors are seeking to achieve outperformance or a specific outcome.

We remain committed to focusing on areas where active management demonstrates clear, repeatable advantages. This could be within outcome-oriented strategies, which are not typically designed around an index. It could be in areas of the world where public markets are less efficient, such as within emerging markets. Or it could be in areas in which passive investment strategies cannot efficiently compete, such as illiquid fixed income or private assets.

Changing market dynamics also provide us with the opportunity to take a fresh look at our product range. With a diverse offering of more than 650 funds across 41 investment desks, we support our clients by identifying the right solution for them. To do so, we have restructured our product range around 10 key strategic capabilities, which are set out on page 13.

Regional growth

We have made progress this year in a number of key strategic areas which we believe will drive future growth. From a regional perspective, I have previously highlighted the growth potential in North America and Asia Pacific.

We have seen good underlying traction in growing our business in North America. The partnership with Hartford Funds that we announced in 2016 has been successful, generating net new business of £1.7 billion since the relationship began. We are also seeing good momentum in generating new business from institutional clients. We see more opportunities in the region and it continues to be an area of strategic focus for us.

In Asia Pacific, we have continued to generate good net flows from clients in Japan, one of the largest markets in the world and one of the few in the region where our market share is relatively small. The Chinese market is opening up to foreign investors and represents a very significant opportunity for us. We are expanding our footprint both through our existing relationship with Bank of Communications and through the distribution of wholly-owned products to the Chinese retail market, where we have recently received a private fund management licence.

Private assets and alternatives

Product diversification is one of Schroders' key strengths, as we have broad investment capabilities in a range of asset classes.

We have expanded our capabilities further in private assets, which we consider to be a key area of strategic growth. In 2017 this included the acquisition of Adveq, now rebranded Schroder Adveq, and the creation of a specialist alternatives sales unit.

Schroder Adveq is a Swiss-based private equity firm, with a strong track record of AUM growth and a high quality institutional client base. Private equity displays many of the characteristics that make private assets an attractive asset class, such as the benefits of active investment management, high institutional client demand and excellent client longevity.

This acquisition increased our total AUM in Private Assets and Alternatives to £33.3 billion, building upon existing capabilities including in real estate, infrastructure debt, insurance-linked securities and direct lending.

Technology

We believe that the effective use of leading technology and data processing will be critical to our future success.

Our focus on embedding technology and data analytics across our business allows us to gain insights into client behaviour, build conviction in portfolio positions and drive efficiencies.

Our data insights teams have grown considerably and are embedded within investment teams not just in the UK, but also in a number of our overseas offices. These data scientists use alternative and non-traditional data sets to gain unique insights to complement the work of

Market and opportunities

Continued macro uncertainty

2017 has seen a continuation of many of the themes that have defined recent years. Political instability, low interest rates and high market valuations have again driven headlines across the world.

While political uncertainty did not diminish in 2017, there was a slowdown in the wave of populism that had dominated the previous year. General elections in France and the Netherlands were won by the more centrist parties, despite populist movements. However, we witnessed independence campaigns in Spain, increasing far-right politics in Austria and a German general election that left the incumbent party initially struggling to form a coalition government.

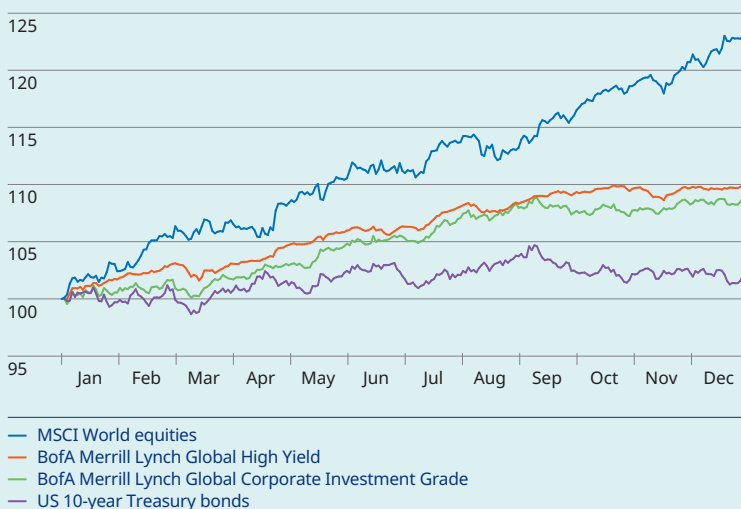
In our home market of the UK, a snap general election failed to deliver a majority government to any political party. The UK's planned exit from the European Union has continued to dominate the political agenda and a great deal of uncertainty remains.

In the US, the administration struggled to push through key legislation, although succeeded in passing a tax reform bill that will reduce the headline corporate tax rate. In Asia Pacific, escalating tensions on the Korean peninsula threatened to destabilise the region.

Interest rates globally remain at historically low levels, although we have seen some central banks take steps towards normalising monetary policy. The Federal Reserve has enacted three interest rate increases through 2017 and the Bank of England raised rates for the first time in a decade. The European Central Bank maintained its Quantitative Easing policy, but tapered purchases throughout the year and is expected to continue to do so in 2018.

Regulation continues to be a key focus for the industry. In June, the UK's Financial Conduct Authority (FCA) published the final report of its Asset Management Market Study and announced a series of measures to improve competition within the industry. In Europe, MiFID II and PRIIPs dominated regulatory discussions. Both were implemented at the start of 2018 and aim to provide greater investor protection and improve transparency.

Asset class returns in 2017*



* Returns in US dollar, rebased to 100 at 31 December 2016.

A good year for risk assets

Despite these macro concerns, our clients have benefited from a benign environment through 2017, with global equity markets advancing against a backdrop of positive economic data. Global growth rates have continued to improve, albeit in many cases these were not matched by wage growth. Inflation rates in most developed economies remain relatively low and employment data has generally been strong.

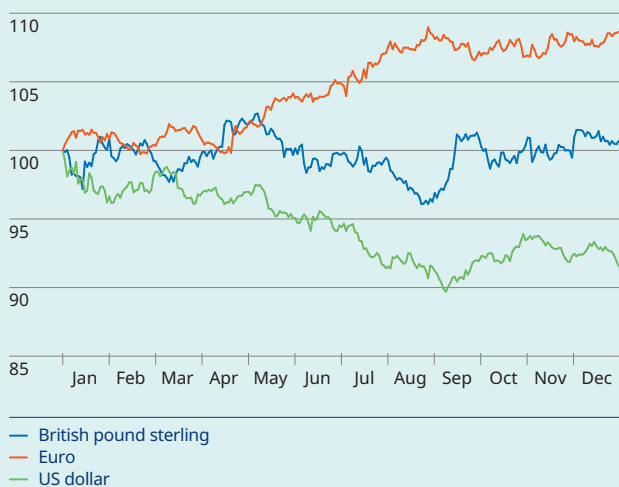
Within global equity markets, all of the major indices provided positive returns for the year. Emerging markets led the way with a near 40% return in US dollar terms. European and US indices also performed well, although the latter fell behind when taking the depreciation of the US dollar into account.

The positive environment for risk assets was also beneficial for credit strategies, with both global high yield and investment grade indices providing strong positive returns.

Although equity markets were largely unaffected by macro and geopolitical concerns, this was not generally the same in fixed income markets, particularly in government debt. As European political risk grew at the start of the year, yields rose in French and Italian government bonds ahead of elections. However, both ended the year positively as political concerns subsided.

There was some volatility within major currencies at the beginning of the year but trends became clear through the second quarter. The US dollar weakened against most major currencies throughout the second half, when measured using effective exchange rates, while the euro strengthened. Sterling fluctuated throughout 2017 but ended the year having strengthened slightly due to some positive progress in Brexit negotiations.

Currency returns in 2017*



* Effective exchange rate, based on a basket of major currencies, rebased to 100 at 31 December 2016.

Our strategy for changing client demand

Although markets have largely dealt well with macro concerns, uncertainty remains and it is possible that the investment environment will become more challenging.

Against this backdrop, many of our clients face difficulties in deciding where to invest. Increasingly, they are looking to us to provide more than just component building blocks for their portfolios. Instead, they require complete solutions that help them achieve their financial goals.

Our solutions are designed to take advantage of positive returns but to also provide protection in more challenging environments, consistently delivering specific outcomes.

We have adapted our business towards a more client-centric proposition. In 2016, we created an independent Product division and a Solutions team who focus on institutional clients' objectives across asset classes.

We continue to focus on responding to changing client demands and in 2017 we reshaped the way we look at our product range. We have restructured our product offering to provide a more complete, solutions-based view of our range. This new approach moves away from a traditional asset class view and instead focuses on delivering specific outcomes designed to meet a broad range of client needs.

We have assessed the strategies run by our 41 investment teams and identified 10 key themes. These strategic capabilities are centred on areas of significant or growing client demand, existing investment strength and persistent demand for active management.

Our strategic capabilities are listed below and cover a wide range of areas, from delivering a consistent income to providing for retirement or focusing on sustainability and strong governance.

Our ten strategic capabilities



Absolute Return



Alpha Equity



Credit



Emerging Markets



Income



Multi-Asset Solutions



Private Assets



Retirement



Solutions




Sustainability



Read more about our strategic capabilities in the glossary on page 170 and at [schroders.com/capabilities](https://www.schroders.com/capabilities).

Our strategy for 2017 and beyond

Our strategy is focused on sustainable, profitable growth over the long term. This means identifying and investing behind opportunities for future growth, while retaining focus on cost discipline with a continual drive for improved efficiency.

Our priorities	Develop and maintain long-term client partnerships	Offer a range of innovative products	Consistently deliver outcomes for clients
<p>Why it's important</p> <p>We focus on helping our clients achieve their financial goals and building their future prosperity.</p> <p>Building close partnerships with our clients and intermediaries enables us to gain a deeper understanding of our clients' financial needs.</p> <p>This in-depth understanding allows us to continue to develop solutions, leading to greater client longevity and increased new business opportunities.</p> <p>We deliver the whole of the firm to our clients, utilising the most relevant capabilities or products to provide a solution that meets their goals.</p> <p>We also continually look to develop new relationships globally, across regions and sales channels.</p>	<p>Innovative product design is crucial to our continued future growth.</p> <p>An increasing number of our clients are looking for products that seek to provide a financial outcome, which could be a level of income, an absolute return or derisking of their financial positions such as an employer pension obligation.</p> <p>We are continually looking to expand our offering and diversify into new areas of investment expertise.</p>	<p>As an active manager, we are committed to delivering consistent, repeatable outcomes for our clients.</p> <p>Whilst many of our strategies seek to outperform a stated benchmark or peer group, client demand is increasing for outcome-oriented solutions.</p> <p>Sustained outperformance or achieving a predefined outcome increases value for our clients, builds trust and is a driver of new business.</p>	
<p>Key performance indicators</p>	<ul style="list-style-type: none"> - Net new business 	<ul style="list-style-type: none"> - Net new business 	<ul style="list-style-type: none"> - Client investment performance - Net new business
<p>Progress through 2017</p>	<ul style="list-style-type: none"> - Total net new business of £9.6 billion - In North America, growing momentum through our strategic relationship with Hartford Funds - In Wealth Management, acquisitions of the wealth management business of C. Hoare & Co. and other acquisitions including within Benchmark Capital - Completed acquisition of Adveq, expanding our capabilities in private assets and alternatives 	<ul style="list-style-type: none"> - Restructured our product range around 10 distinct strategic capabilities. More details on our capabilities can be found on page 13 - Continued expansion into private assets through the acquisition and integration of Adveq - Seed and co-investment capital at a record level of £392 million - Launched new strategically important products including absolute return, income and inflation-linked strategies 	<ul style="list-style-type: none"> - 74% of our assets outperformed their stated comparator over three years. More details on our performance reporting can be found on page 23 - Integrated Solutions team, constructing bespoke solutions to meet institutional clients' financial needs
<p>Growth opportunities</p>	<ul style="list-style-type: none"> - Seek to further increase client longevity - Continue to attract and retain business with clients, specifically in strategically important growth areas, such as North America, Japan and China 	<ul style="list-style-type: none"> - Further develop our strategic capabilities approach - Maintain a commitment to seeding new products - Continue expansion into private assets 	<ul style="list-style-type: none"> - Maintain high levels of outperformance - Continue to provide value for money and build clients' future prosperity
<p>Key risks</p>	<p>1 2 6 7 8 14 17</p>	<p>1 2 3 5 6 7 8 9 14</p>	<p>1 2 3 6 7</p>
<p> Read more about how our strategy mitigates these risks from page 34.</p>			

Develop leading technology	Develop and retain a diverse pool of talent
<p>Active asset management is inherently about processing and analysing data to achieve outperformance or desired outcomes.</p> <p>It is critical to our ongoing success that we have leading technology across the firm.</p> <p>Better use of technology can be employed to innovate and automate while improving productivity and efficiency.</p> <p>Our focus on investing back into the business comes with a strict cost discipline and a continual effort to improve efficiency.</p>	<p>Our ongoing success is driven by our people.</p> <p>Developing and retaining a diverse and talented workforce is key to the stability of our business and the delivery of all aspects of our business model.</p> <p>Diversity of thought is part of our heritage and it is one of the reasons we are able to attract high quality talent.</p> <p>We invest heavily in our people, offering opportunities to grow their knowledge, skills and capabilities.</p> <p>In order for them to succeed we need to provide them with a working environment that supports productivity, innovative thinking and collaboration.</p>
<ul style="list-style-type: none"> - Ratio of total costs to net income 	<ul style="list-style-type: none"> - Retention of key talent
<ul style="list-style-type: none"> - Invested in technology solutions throughout the business including: <ul style="list-style-type: none"> - Expansion of data insights teams - Ongoing implementation of new front office technology platforms - Upgrading Client Relationship Management system - Maintained cost discipline to drive efficiency, improving ratio of total costs to net income from 64% to 61% 	<ul style="list-style-type: none"> - 43% of our employees have been with us for more than six years - Female representation in senior management roles ended the year at 29% - 94% of employees proud to be associated with Schrodgers - 94% retention rate of highly rated employees
<ul style="list-style-type: none"> - Continue to invest in technology across the firm - Invest in further automation and robotics - Maintain focus on cost discipline through the ratio of total costs to net income 	<ul style="list-style-type: none"> - Maintain high rate of retention of highly rated employees - Target 33% of female representation in senior management roles by 2019 - Move to new London-based headquarters

our fund managers and analysts. We are also using data and analytics to enhance our interactions with clients. Our client relationship teams are leveraging behavioural analytics to provide insights into client behaviour, while real-time market intelligence helps us to build a clearer picture of changing client demand.

Effective use of technology can also greatly increase efficiency and productivity, vital to our ongoing success in an environment of declining revenue margins. Increased use of automation and robotics frees up resources from straightforward tasks. This allows our people to focus on serving clients and growing the business.

Wealth Management

Wealth Management is another area that we see driving future growth and making a larger contribution to the overall group. We have invested in growing the business, both organically and through selective acquisitions, and we are starting to see the benefits of this come through in the 2017 results.

We acquired the discretionary assets of around 1,800 clients from C. Hoare & Co. in February 2017. We have also benefited from our 2016 acquisition of Benchmark Capital, which allows us to participate further along the value chain and get closer to the end consumer in the UK. It has also allowed us to increase the IFA network through selective acquisitions. These have generated strong revenue and net new business growth in the year.

People

As always, our achievements have been realised through our talented and diverse employees, whose integrity and passion are key to our ongoing success. We have a strong and distinctive culture which is diverse in both approach and outlook.

We have worked throughout the year to protect and build upon this culture, promoting diversity and a collaborative working environment for all of our people. We were one of the first signatories of the Women in Finance Charter. We achieved our initial target of 30% women within senior management during the first quarter of 2017, though at year end the figure had fallen back to 29% as a result of minor restructurings within the firm. We are now targeting 33% by the end of 2019. More details on this can be found on page 28.

Outlook

Looking ahead, our core focus will remain on helping our clients to achieve their financial goals and build their future prosperity.

We will continue to invest for long-term growth, whether in allocating more resources to leverage opportunities created by the latest technology, expanding our geographical footprint or further diversifying our product offering.

Although there are challenges facing the industry, we believe that there are opportunities for growth and that our diversified business model is ideally placed to take advantage of these. I look forward to leading our continued success.

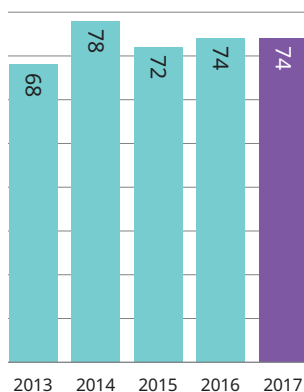
Peter Harrison
Group Chief Executive

Read more within the key performance indicator section and Directors' remuneration report from pages 16 and 62 respectively.

Tracking our progress

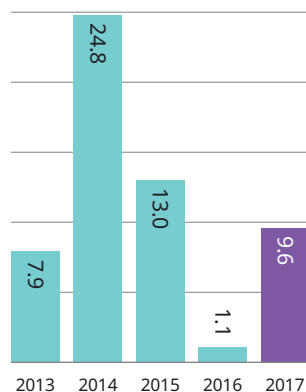
Client investment performance (%)

74%



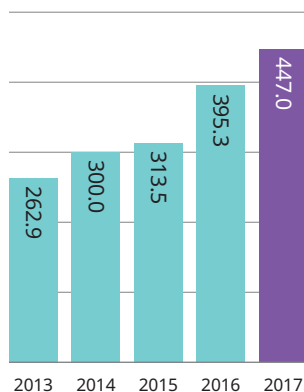
Net new business (£bn)

£9.6bn



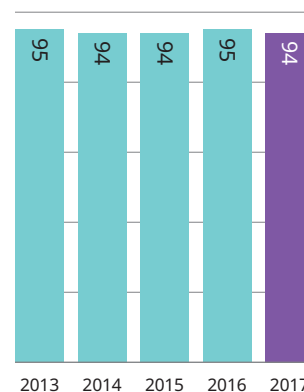
Assets under management and administration (£bn)

£447.0bn



Retention of key talent (%)

94%



What we measure

We target at least 60% of our AUM to outperform their stated comparator over rolling three-year periods.

We seek to generate positive net new business across the business.

We aim to grow AUMA over time in excess of market growth, through positive investment outperformance and net new business. As a sterling denominated reporter, currency movements may also impact asset levels.

Developing and retaining a diverse pool of talent is key to our ongoing success. We measure retention of those employees who have been rated as either outstanding or exceeds expectations in their annual performance review.

How we performed

Investment performance over a three year period continued to be strong in 2017, with 74% of assets outperforming their stated comparator. We have been above our target for each of the last five years.

Five year investment outperformance was 84% and the one year figure was 70%.

For more details on how we calculate investment performance, please see pages 23 and 168.

We generated net new business of £9.6 billion in 2017, gaining market share with inflows across Asset Management and Wealth Management.

We generated £3.4 billion of net inflows from clients in the Intermediary channel, with strong demand for branded funds more than offsetting net outflows from sub-advised mandates.

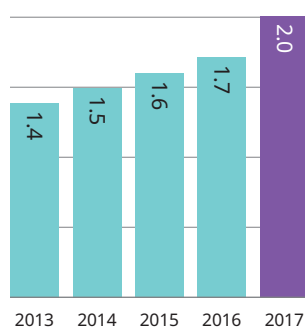
The Institutional channel generated net new business of £4.2 billion and there were net inflows of £2.0 billion in Wealth Management.

AUMA increased by 13% in 2017 to £447.0 billion, driven by net new business, positive investment returns and currency movements and acquisitions.

Our retention of highly-rated employees has consistently been over 90%. This represents a committed and engaged workforce which is aligned with Schroders' values.

Net operating revenue (£bn)

£2.0bn



Net operating revenue is primarily revenues generated from assets under management less cost of sales. We aim to grow net operating revenue over time as assets under management increase.

Net operating revenue has consistently grown year on year as we have seen increases in assets under management. In 2017, we saw a 17% increase in net operating revenue to a record level of £2.0 billion.

Ratio of total costs to net income* (%)

61%

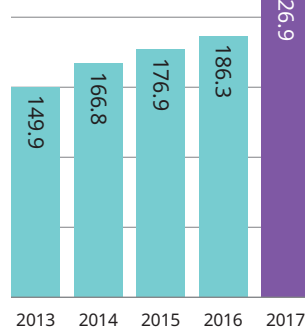


We target a 65% ratio of total costs to net income, recognising that in weaker markets the ratio may be higher than our long-term target.

In 2017, this ratio was again better than our target at 61%.

Basic earnings per share* (p)

226.9p

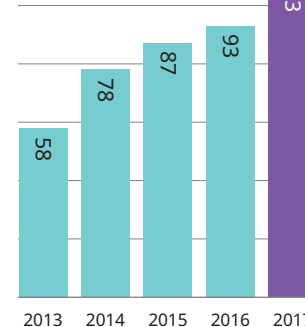


We aim to grow earnings per share consistently, recognising the potential impact of market volatility on results in the short term.

In 2017, basic earnings per share before exceptional items increased by 22% to 226.9 pence.

Dividend per share (p)

113p



Our policy is to increase dividends progressively in line with the trend in profitability and to maintain a payout ratio of approximately 50%. For more information, see page 27.

The Board is recommending a final dividend of 79 pence per share, bringing the total dividend for the year to 113 pence per share, an increase of 22%. This represents a payout ratio of 50%.

We have made changes to our KPIs from the 2016 Annual Report and Accounts.

Net operating revenue margin has been replaced by net operating revenue. Our net operating revenue margin has been declining over recent years, primarily due to the success of our strategy of growing our Fixed Income and Multi-asset capabilities. These typically have a lower net operating revenue margin than our existing assets under management but increased scale has

contributed to greater absolute net operating revenue, which is a more appropriate measure of performance.

Total compensation ratio has been replaced by retention of key talent. Compensation costs are around 70% of our total cost base so the compensation ratio is already reflected in the ratio of total costs to net income, which remains a KPI. A key part of our strategy is developing and retaining a diverse pool of talent so we have included the new KPI to reflect this.

* Before exceptional items.

A client-centric value proposition

What we offer

We offer actively managed investment solutions that help build our clients' future prosperity.

We design innovative products and bespoke solutions, actively managed by our 41 investment teams across a diverse range of asset classes including equities, fixed income, multi-asset, private assets and alternatives.

Within Asset Management, we work with a broad range of institutional clients, including pension funds, insurance companies and sovereign wealth funds. We also work with a variety of intermediaries, including financial advisers, private wealth managers and online platforms.

Within Wealth Management we offer bespoke discretionary and advisory investment services, lending and deposit taking to private individuals, family offices, trusts and charities.

We differentiate ourselves from our competitors through:

Our long-term focus

Supported by our shareholder structure and strong capital base, we take a long-term approach in everything that we do.

A collaborative culture

Our culture is based on unconditional collaboration and a core belief in working together to bring the whole of the firm to our clients.

Our diversity of thought

An inclusive environment where ideas are heard and debated is one of the keys to our long-term success.

A data-driven approach

We continue to enhance how we use data across all areas of the business, including deriving unique investment insights, designing innovative products and improving operational efficiency.

How we do it

Our clients are at the centre of our business. Our resilience and ongoing success is built upon our ability to understand our clients' needs. This allows us to anticipate how these needs will evolve and to construct products that meet their financial goals and build future prosperity.



41
Investment teams

29
Countries

4,619
People

What we deliver for other stakeholders

Understand clients' goals


We build principled partnerships with our clients in order to fully understand their financial goals. This allows us to provide a high level of client service and select appropriate products to meet their needs.

Develop innovative products

We design innovative products to consistently meet our clients' financial objectives, whether that is outperforming a benchmark, providing a regular sustainable income or delivering an absolute return.

Actively manage solutions

We take an active approach to managing investment solutions that build our clients' future prosperity over the long term.


 [Read more about how our business is structured on page 6.](#)

Outperformance for clients

It is only by demonstrating value for money in meeting our clients' financial objectives that we can continue to successfully grow our business.

We earn fees charged as a percentage of our clients' assets under management and administration. We may also earn other revenues, such as performance fees and transaction related fees.

Our client-led approach allows us to deliver for a range of global stakeholders, including our shareholders, people, wider society, regulators and suppliers.

 [Read more about our stakeholders on page 53.](#)



Shareholders

Our business model focuses on delivering growth over the long term, which enables us to generate sustainable shareholder returns. Our progressive dividend policy has seen a 22% increase in the total dividend to 113 pence, or a payout ratio of 50%.

Dividend per share

113p

 [Read our business and financial review from page 20.](#)



People

We seek to maintain a culture of collaboration and innovation, supporting a talented and diverse workforce, who are key to our ongoing success. We have consistently maintained a high rate of retention of our most highly rated people.

Employees proud to be associated with Schroders

94%

 [Read about our people on page 28.](#)



Society

We are committed to acting as responsible stewards of capital and promoting sustainability and high levels of governance in the companies in which we invest.

We are proud to support the communities in which we operate.

Company engagements on environmental, social and governance (ESG) issues

1,014

 [Read about our impact on society from page 30.](#)



Strategic investment with strong cost discipline

2017 has been another successful year for Schroders, as we delivered record pre-tax and exceptionals profits of £800.3 million, up 24% on 2016. Our pre-exceptional earnings per share for the year are 226.9 pence and we are recommending a final dividend of 79 pence. This results in a full year dividend of 113 pence, which represents a 50% payout ratio. After exceptional items, profit before tax was up 23% to £760.2 million, resulting in a 21% increase in basic earnings per share to 215.3 pence.

The Group Chief Executive's review on pages 10 to 15 summarises the key developments in 2017 for Schroders and the wider industry. The principal impact of these on the financial results derives from the growth in the Group's assets under management and administration (AUMA).

AUMA reached a record high in 2017, increasing by 13% to close the year at £447.0 billion (2016: £395.3 billion). This increase is driven by four factors: investment returns for clients, which added £31.6 billion (2016: £64.7 billion); net new money introduced by clients of £9.6 billion (2016: £1.1 billion); new money under management introduced through acquisitions of £8.5 billion; and the growth in assets under administration of £2.0 billion.

It is clear that the business environment in which we operate is changing and the Group Chief Executive's review sets out some of the challenges that the industry is facing.

We saw some of these changes impact upon our financial performance in 2017. For example, reductions to our fee margins restricted the growth in our net income arising from higher AUMA. However, the acquisitions we completed in 2017 and the net new business introduced have both been at higher average net operating revenue margins, offsetting some of this underlying decline. We estimate that net new business in 2017 generated annualised net new revenue of £63 million, around £24 million of which is in these results.

Overall, we believe that we are well placed to adapt to the industry challenges and to continue to grow.

The growth in our net income was partially offset by an increase to our cost base, in part driven by our investment in strategic priorities, but also as we addressed regulatory demands. In this environment our continued focus on cost management remains a priority. In 2017 the ratio of total costs to net income improved by three percentage points to 61%, one percentage point of which was due to regulatory requirements to defer a greater proportion of pay for certain employees (see page 62). The accounting impact of this will unwind by around 2019.

Two important areas of strategic investment for us in 2017 have been the development of a new front office technology platform and preparations for the move to our new headquarters in London. Both of these are expected to complete in 2018. These are important initiatives for us as they are both expected to have significant benefits to the way in which we work. The front office technology platforms are expected to bring material improvements to the operational support for our fund managers and the new London offices will deliver an innovative working environment for our people and a leading experience for our clients.

Profit before tax and exceptional items was a new record at £800.3 million

Regulation continues to be an important area of focus, requiring investment into our business to meet changing requirements. Promoting high compliance standards in each of the jurisdictions in which we operate continues to be a focus.

With our head office in the UK and a significant continental European business, we are closely monitoring the progress of Brexit negotiations between the UK and the other members of the European Union. However, we do not expect the outcome to be significant for the Group as our business model is already structured around a strong presence in continental Europe, with only modest changes anticipated in our corporate structure and regulatory profile. We are taking the necessary actions to prepare the Group for the new environment and considering the likely impact of the negotiations as they develop. Further information on the potential impact of Brexit is set out in the key risks and mitigations report on page 42.

We report both our profits and AUMA in sterling. As a net exporter of investment services from the UK, we have benefited from the devaluation of sterling which followed the UK's decision to exit from the European Union in June 2016. The Group's revenues and AUMA are predominantly denominated in non-sterling currencies, whereas the cost base is less impacted by currency changes. The weakness in sterling in the first half of the year, compared to 2016, contributed positively to profit before tax and exceptional items by around £27 million.

Overall, we believe we are well placed to deal with the industry challenges, including those related to Brexit, and remain focused on our strategic priorities alongside strong cost discipline.

Based on these strong results, the Board is recommending a final dividend of 79 pence per share (2016: 64.0 pence), bringing the total dividend for the year to 113 pence, an increase of 22% from 2016.

The following commentary provides a more detailed review of our financial results.

Richard Keers
Chief Financial Officer



Assets under management and administration (AUMA)

The Group's AUMA increased to a record level of £447.0 billion in 2017 (2016: £395.3 billion). AUMA comprises assets managed or advised on behalf of clients (AUM) of £435.7 billion (2016: £386.0 billion) and assets where Schroders solely provides administrative support through the Benchmark Capital business (AUA) of £11.3 billion (2016: £9.3 billion).

Asset Management AUM was up 13% to £389.8 billion (2016: £346.4 billion). The increase was driven by the positive investment returns we achieved on behalf of clients of £29.8 billion, strategic acquisitions of £6.0 billion and net new business from our clients of £7.6 billion.

In the Intermediary sales channel, we generated net new business of £3.4 billion. Our branded fund ranges benefited from improved retail investor sentiment throughout 2017 and generated positive net new business of £7.6 billion. We generated positive net sales across all asset classes, with demand led by fixed income and equity products.

In contrast, there were net outflows of £4.2 billion from third party funds that are sub-advised by Schroders, which are also reported within the Intermediary sales channel. These outflows reflected the loss of a large sub-advisory mandate in the first half of the year as a client in North America chose to internalise its asset management activity. We generated positive net inflows in sub-advised mandates in all other regions and, excluding this mandate, in North America.

Net new business from institutional clients was relatively robust as we generated net inflows of £4.2 billion. Net inflows in the UK, North America and Asia Pacific more than offset a small number of individual client redemptions in continental Europe.

North America is a key region of strategic growth for the Group. Despite the loss of the sub-advised mandate, we have continued to build scale in the region in 2017. In late 2016, we entered into a strategic relationship with Hartford Funds to manage and distribute a 'Hartford Schroders' branded fund range to clients introduced through the Intermediary sales channel in the US. The progress of this relationship is encouraging with £1.6 billion of net new money invested into this fund range in 2017. Total AUM in the Hartford Schroders range was £4.6 billion at 31 December 2017.

We also generated a further £2.5 billion of net investment from institutional clients in the region, primarily into equity and multi-asset mandates.

Assets managed on behalf of clients based in North America totalled £53.6 billion at 31 December 2017, which represented 12% of the Group's total AUM.

North America is a key region for strategic growth and we have continued to build scale there during 2017

In Asia Pacific, we generated net investment from clients of £0.9 billion. Redemptions from institutional clients in Australia were offset by positive net new business from clients in the strategically important countries of Japan and mainland China, which together generated net inflows of £3.3 billion.

At an asset class level, we continued to see demand for fixed income products from both our institutional clients and clients introduced through our Intermediary sales channel, with combined net inflows of £3.5 billion in 2017. Investments into fixed income products now represent 18% of our total AUM. Elsewhere, there was a greater demand for risk products from clients, with £3.1 billion of inflows into equity products from the Intermediary sales channel, partially offset by outflows from institutional clients in Australia. Demand from institutional clients for multi-asset strategies continued, with net inflows of £4.6 billion.

£bn	AUM				Total	AUA*	AUMA
	Institutional	Intermediary	Asset Management	Wealth Management			
1 January 2017	226.3	120.1	346.4	39.6	386.0	9.3	395.3
Gross inflows	38.4	56.7	95.1	8.2	103.3		
Gross outflows	(34.2)	(53.3)	(87.5)	(6.2)	(93.7)		
Net flows	4.2	3.4	7.6	2.0	9.6		
Acquisitions	6.0	-	6.0	2.5	8.5		
Investment returns**	19.3	10.5	29.8	1.8	31.6		
31 December 2017	255.8	134.0	389.8	45.9	435.7	11.3	447.0

* Assets under administration has been restated to exclude assets from which we only derive transactional non-recurring revenues.

** Currency movements decreased assets under management by around £12 billion.

The acquisition of Adveq in July 2017 added a wide variety of private equity investment skills, including venture capital, growth capital, buyout, and turnarounds through primary or secondary listings. Adveq was established over 20 years ago and has a successful track record of growth, servicing institutional clients in Europe, North America and Asia Pacific.

Following the acquisition of Adveq we have now separately reported the Group's Private Assets and Alternatives AUM, which includes investment capabilities in real estate, infrastructure debt, insurance-linked securities, securitised credit, hedge funds and direct lending as well as the rebranded Schroder Adveq private equity business. The Private Assets and Alternatives business generated £2.5 billion of net inflows in 2017 in addition to the £6.0 billion of investment commitments acquired with Schroder Adveq. Private Assets and Alternatives represented 8% of the Group's total AUM with £33.3 billion of AUM at the end of 2017.

Wealth Management generated £2.0 billion of net new business from clients, with a further £2.5 billion of assets added through the acquisition of the wealth management business of C. Hoare & Co.

Client investment performance

Our ability to generate positive investment outcomes for clients is central to our success as an active investment manager. Investment performance over a three year period (our KPI) continued to be strong in 2017, with 74% of assets outperforming their stated comparator (2016: 74%). Five year investment outperformance was 84% (2016: 85%) and the one year figure was 70% (2016: 75%).

Client investment performance is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. Calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking.

When a product's investment performance is discussed or shared with a client or potential client it is specific to the strategy or product. For clients introduced through our Intermediary sales channel, performance will be shown net of fees at the relevant fund share-class level, whilst for institutional clients it will typically be shown gross of fees with a fee schedule for the strategy supplied. We actively monitor the performance of our individual products against their stated objectives. Further information about the calculation of investment performance is provided in the glossary on page 168.

The Group's financial performance

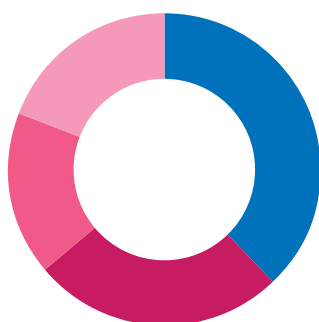
Net income before exceptional items was up 15% to £2,068.9 million (2016: £1,793.1 million), mainly as a result of increased net operating revenue of £2,010.2 million (2016: £1,712.8 million). Net operating revenue represents core operating revenues earned on the assets managed by Schroders, net of cost of sales.

The increase in net operating revenue was driven by higher average AUM, which was up 19%. The effect of higher AUM was partially offset by an expected reduction to net operating revenue margins, which decreased from 48 basis points to 47 basis points, excluding performance fees. Continued strong investment performance for our clients resulted in performance fees of £78.4 million (2016: £41.2 million).

Assets under management (£435.7bn)

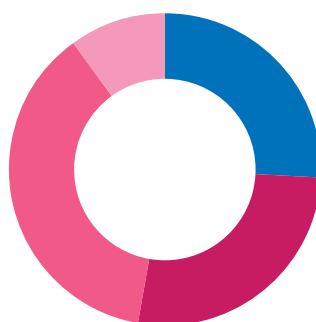
 See more analysis on our assets under management on page 5.

Institutional (£255.8bn)



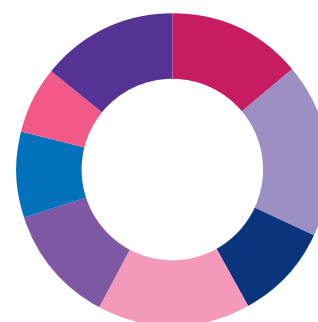
■ UK
■ Asia Pacific
■ Europe, Middle East and Africa
■ Americas

Intermediary (£134.0bn)



■ UK
■ Asia Pacific
■ Europe, Middle East and Africa
■ Americas

Wealth Management clients by portfolio size (£45.9bn)



■ <£1m
■ £1m - £5m
■ £5m - £10m
■ £10m - £25m
■ £25m - £50m
■ £50m - £100m
■ £100m - £250m
■ >£250m

Business and financial review continued

Net gains on financial instruments and other income before exceptional items decreased by £23.6 million to £35.2 million (2016: £58.8 million), mainly as a result of certain one-off gains which arose in 2016. We also earn other income which includes fees we earn on AUA and other income within Benchmark Capital.

In addition, we have a number of joint ventures and associate interests across the world, including with Bank of Communications in China and with Axis Bank in India. These continued to perform well with our share of profits before exceptional items rising to £23.5 million (2016: £21.5 million).

The Group's operating expenses excluding exceptional items were £1,268.6 million (2016: £1,148.4 million). This represents a ratio of total costs to net income of 61% which is below our long-term KPI target of 65% and three percentage points better than 2016.

Compensation costs are the largest component of our cost base, making up around 70% of total operating expenses. Excluding exceptional items, compensation costs increased to £881.3 million (2016: £791.6 million). Compensation costs are managed with reference to a total compensation ratio which decreased to 43% (2016: 44%) despite an increase in headcount.

This year we have made changes to our remuneration approach for employees deemed to be material risk takers under the UCITS or AIFM Directives (UCITS / AIF MRTs). We have increased bonus deferral levels for these employees, to create further alignment with clients and shareholders and to meet the requirements of those regulations. This has resulted in an increase in the proportion of variable remuneration that is deferred. Under accounting rules, the cost of employees' deferred remuneration is charged over the period in which the remuneration becomes payable. This increase in the proportion of remuneration deferred has resulted in a reduction of around one percentage point in our total compensation ratio for 2017. This is an accounting benefit and will largely unwind over the next two years. Further information on our remuneration approach for UCITS / AIF MRTs can be found in the Remuneration report on page 62.



Non-compensation costs excluding exceptional items increased to £387.3 million (2016: £356.8 million). This increase was mainly due to weaker sterling in the first half of 2017 compared with the same period in 2016, with a proportion of our cost base incurred in non-sterling denominations. This has added around £10 million of costs. In addition, business acquisitions have increased our costs by around £10 million in 2017. We have also incurred costs in respect of regulatory requirements and investment into other strategic priorities.

Pre-exceptional profit before tax was £800.3 million (2016: £644.7 million), a 24% increase on the previous year. Basic earnings per share before exceptional items rose 22% to 226.9 pence (2016: 186.3 pence). After exceptional items, the profit before tax was £760.2 million (2016: £618.1 million) and basic earnings per share was 215.3 pence (2016: 178.3 pence).

The effective tax rate before exceptional items increased from 20.5% to 21.4% and after exceptional items increased from 20.7% to 21.8%. The increase has arisen mainly as a result of the reduction in the expected future benefit from deferred tax assets, following the decision to decrease the rate of US corporation tax effective from 1 January 2018.

Asset Management

Asset Management net operating revenue increased 17% to £1,743.3 million (2016: £1,489.5 million), including performance fees of £77.5 million (2016: £38.8 million).

Excluding performance fees, the net operating revenue margin on average AUM was 45 basis points (2016: 46 basis points). This decline was broadly in line with our expectations and was mainly due to changes in business mix, together with some external fee pressures.

In the Institutional sales channel, the net operating revenue margin before performance fees remained unchanged from 2016 at 32 basis points, with growth in higher margin private assets and alternatives and positive investment returns offsetting outflows from equity strategies. There were £57.6 million of performance fees (2016: £27.2 million).

The net operating revenue margin for the Intermediary sales channel, before performance fees, declined by one basis point to 72 basis points in 2017. The combined impact of the loss of a low margin sub-advised mandate, inflows into equity funds and investment returns in higher margin products partially offset structural changes to fee rates in the UK and Luxembourg. We generated £19.9 million of performance fees (2016: £11.6 million).

Total Asset Management net income increased by 15% to £1,757.9 million (2016: £1,534.4 million), including £20.8 million of income from our share of profits from joint ventures and associates (2016: £16.7 million).

Operating expenses before exceptional items within the Asset Management segment increased to £1,052.0 million (2016: £962.0 million) as we continued to grow the business. Headcount increased to just under 3,700, mainly as a result of investment in strategic growth opportunities including the acquisition of Adveq. Non-compensation costs increased in line with business growth and as we continued to make strategic acquisitions and investments in technology and infrastructure to support the future growth of the Group.

Profit before tax and exceptional items rose 23% to £705.9 million (2016: £572.4 million). There were exceptional items of £17.2 million, principally related to the amortisation of acquired intangible assets and costs incurred as part of the acquisition of Adveq. After exceptional items profit before tax increased by 24% to £688.7 million (2016: £553.9 million).

Wealth Management

Wealth Management net income increased by 22% to £273.3 million (2016: £224.0 million) mainly driven by net operating revenue which was up 20% to £266.9 million (2016: £223.3 million).

Net operating revenue within Wealth Management comprises management fees, performance fees, transaction fees and net banking interest income. Management fees increased by £42.3 million to £203.8 million, driven by an increase in the average AUM on which fees are earned of 27%. There were performance fees of £0.9 million (2016: £2.4 million). Transaction fees also increased to £40.8 million (2016: £38.8 million) and net banking interest rose to £21.4 million (2016: £20.6 million). The increase in average AUM included the full year impact of the acquisition of Benchmark Capital in December 2016 and the acquisition of the wealth management business of C. Hoare & Co. in February 2017.

Business and financial review continued

Net operating revenue margins declined from 65 basis points in 2016 to 61 basis points in 2017. This was largely due to the acquisition of Benchmark Capital, which has brought in business at a lower average fee margin than our previous Wealth Management assets under management.

AUA within the Benchmark Capital business contributed £6.0 million to other income (2016: nil).

Operating expenses, before exceptional items, increased by £25.4 million to £183.0 million (2016: £157.6 million). This increase was mainly driven by a full year of costs relating to the Benchmark Capital business. Compensation costs were also up as we grew the business resulting in additional headcount, including those acquired with the discretionary wealth management business of C. Hoare & Co.

Profit before tax and exceptional items increased 36% to £90.3 million (2016: £66.4 million). Exceptional items within Wealth Management comprise mainly amortisation of acquired intangible assets and other costs incurred in relation to acquisitions. After exceptional items, profit before tax grew by 20% to £67.4 million (2016: £56.3 million).

Group segment

The Group segment comprises central management costs, returns on investment capital, including income from financial instruments and our associate interest in RWC Partners, together with net returns from seed capital investments after hedging and co-investments into Schroder Adveq fund ranges.

Net income for the Group segment was £37.7 million (2016: £34.7 million). Costs in the Group segment increased by £4.8 million to £33.6 million (2016: £28.8 million). Profit before tax was £4.1 million (2016: £5.9 million) and there were no exceptional items in the Group segment (2016: credit of £2.0 million).

Financial strength and liquidity

The Group's net assets increased by £318.2 million during 2017 to £3,471.0 million. We generated total comprehensive income of £580.4 million (2016: £594.4 million) and distributed £267.6 million to shareholders in the form of the 2016 final and the 2017 interim dividends (2016: £236.6 million).

The Group's total assets and liquidity are impacted by the different forms of business that we conduct. Certain assets managed on behalf of investors are recognised in the Consolidated statement of financial position, whilst others are not. The table below sets out how these assets are broken down between on-balance sheet assets and others that form part of our total AUMA.

Within Asset Management, assets that are managed for clients are not generally owned by the Group and are not recorded in the Group's Consolidated statement of financial position. 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 provides investment management, advisory and banking services. Certain Wealth Management subsidiaries provide banking services. These entities are legally responsible for the banking assets and liabilities and the relevant AUM is therefore included in the consolidated statement of financial position. These assets are managed to earn a net interest margin within the Wealth Management segment with consideration of the liquidity demands that may arise from investors. These assets are not made available for general corporate purposes.

	Statement of financial position £bn	Not recorded in the Statement of financial position £bn	Total £bn
Life Company	14.0	–	14.0
Other Asset Management	–	375.8	375.8
Total Asset Management	14.0	375.8	389.8
Wealth Management	3.7	53.5	57.2
Total AUMA	17.7	429.3	447.0
Investment capital	0.8		
Seed and co-investment capital	0.4		
Other assets	3.6		
Total Group assets excluding clients' investments	4.8		
Total Group assets	22.5		

Reflecting these structures, the Group's total assets increased by £1.5 billion to £22.5 billion at 31 December 2017. Excluding those assets that form part of AUM, the Group's total assets increased to £4.8 billion (2016: £4.2 billion). This comprises investment capital, seed and co-investment capital, and other assets.

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 is responsible for monitoring 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, government and government-guaranteed bonds and our funds.

Investment capital reduced by £216 million to £843 million (2016: £1,059 million). This reduction was largely due to acquisitions which more than offset investment gains during the year. In addition, capital released from the operating businesses was more than offset by dividends paid in the year as operating capital was retained to develop our property estate and the front office technology platforms.

Seed and co-investment capital are represented by certain assets that are deployed to develop new investment strategies or co-invest selectively alongside our clients. These assets increased from £325 million at 31 December 2016 to £392 million at the end of 2017.

Other assets increased by £766 million to £3,581 million (2016: £2,815 million). These comprise assets that support the ongoing operating activities of the Group with acquisition related balances.

In 2017 acquisitions, principally comprising Adveq and the wealth management business of C. Hoare & Co., increased goodwill and intangible assets by £212.7 million. We have invested in our property estate both in London and other areas and this increased those assets by £100.4 million before depreciation. We are investing in technology to support our strategic priorities, particularly the front office technology platforms, which increased software assets by £63.7 million before amortisation. Finally, we work closely with the UK defined benefit pension scheme trustees, who use our asset management capabilities to manage the plan assets of the scheme. During 2017, the surplus on an accounting basis increased by £44.7 million to £162.9 million.

The Group's liquidity and regulatory capital position remains strong and further information on this is set out in note 19 of the financial statements.

Dividends

It is our policy to increase dividends progressively in line with the trend in profitability, having regard to overall Group strategy, capital requirements, liquidity and profitability. This approach will enable 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. We intend to maintain a dividend payout ratio of approximately 50%, determined as the total dividend per share in respect of the year, divided by the Group's pre-exceptional basic earnings per share.

It is our policy to increase dividends progressively in line with the trend in profitability

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 costs to net income.

The distributable profits of Schroders plc are £2.7 billion (2016: £2.5 billion) and include retained profits of £2.8 billion (2016: £2.6 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 investing seed capital in our funds to support new investment strategies.

The Board is recommending a final dividend of 79 pence per share, bringing the total dividend for the year to 113 pence per share, an increase of 22% from 2016. This represents a payout ratio of 50%. 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.



An employer of choice

We are proud of our reputation as an employer of choice. We encourage an open, collaborative and meritocratic working environment in which everyone has the opportunity to fulfil their potential. We engage employees over the long term by providing challenging work and supporting development opportunities.

Our people strategy is aimed at developing an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs. We encourage diversity and an inclusive workplace to create a positive environment for our people.

Our approach to business is defined in our guiding principles, which we share with all employees, and includes our values of excellence, innovation, teamwork, passion and integrity. Our values are a key part of the Schroders culture – they define the high standards of behaviour that we expect from our people and are embedded in our appraisal process.

Diversity of thought

Talented people who can understand and embrace different perspectives are crucial to our continued success. This means attracting, retaining and developing a diverse team regardless of age, gender, sexual orientation, disability, religious beliefs or other characteristics. Our Group Chief Executive is committed to ensuring we foster an inclusive culture of diversity across our global workforce.

As we look to expand our diverse talent pool, we have taken a number of key measures, including:

- Ensuring that our entry level assessment centres are gender balanced;
- Providing training to managers on diversity issues and unconscious bias;
- Providing internal and external mentoring programmes to encourage diversity; and
- Offering maternity and paternity coaching, shared parental leave and flexible working policies to help support employees with children.

A series of employee resource groups have been established, which are an important part of our approach to diversity and inclusion. They include gender and sexual orientation, disability, mental health, carer and multi-cultural groups that are a key feature of our identity as an inclusive place to work.

We are committed to providing equal employment opportunities and combating discrimination. Where possible, we monitor the ethnicity, age and gender composition of our workforce and those applying for jobs.

We were amongst the first signatories to the 2016 Women in Finance Charter. We achieved our initial target of 30% women within senior management during the first quarter of 2017, though at year end the figure had fallen back to 29% as a result of minor restructurings within the firm. We are now targeting 33% by the end of 2019. More information on female representation and our gender pay gap can be found on page 78.

In line with our equal opportunities policy, we give fair consideration to all employment applications, including from disabled people, considering particular aptitudes and abilities. If employees become disabled, employment continues wherever possible, with retraining given if necessary. For the purposes of training, career development and progression, all employees are treated equally as part of our commitment to making Schroders an inclusive place to work. More on our approach to diversity and inclusion can be found at schroders.com/inclusion.

We are proud to be an accredited London Living Wage employer. All of our London-based employees, including contractors, are paid above the London Living Wage.

Gender diversity

2017 (2016)	Female	Male
Directors of Schroders plc	3 (2)	8 (7)
Senior managers ¹	238 (220)	580 (541)
Subsidiary directors ²	9 (8)	37 (34)
Total senior management	247 (228)	617 (575)
All employees	1,876 (1,634)	2,743 (2,386)

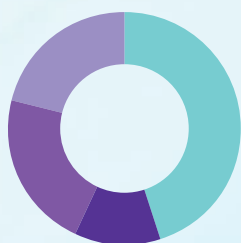
1. Senior managers excludes the executive Directors of Schroders plc and includes some individuals who are also subsidiary directors.
2. Subsidiary directors comprises directors of subsidiaries who are not classified above as senior managers or Directors.

Board policy on diversity

The Board recognises the importance of diversity and that it is a wider issue than gender. We believe that members of the Board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group. The Nominations Committee considers diversity as one of many factors when recommending new appointments to the Board. Whilst we currently have three female Directors representing 27% of the Board, the Board aims to have a minimum of 33% of Board positions held by women by 2020. We also endeavour to only use the services of executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity.



Employees by length of service



< 4 years	45%
4 years to < 6 years	12%
6 years to < 10 years	22%
≥ 10 years	21%

Employee opinion survey 2017

90%

of employees recommend Schroders as a good place to work

94%

of employees are proud to be associated with Schroders

93%

believe Schroders behaves responsibly towards our clients

Employee wellbeing

We have a multi-generational workforce and it is vital that our people are provided with the support and opportunities they need to optimise their health and wellbeing.

As well as being members of several thought-leadership networks, we provide a comprehensive calendar of wellbeing events for our people across five key areas: mind, workplace, body, financial and work-life balance. There is also extensive resilience and mental health training embedded within our learning and development programmes.

Engaged and highly motivated employees

During 2017 we carried out a firm-wide Employee Opinion Survey. The results demonstrate that our employees are engaged with their roles, understand our values and believe that we behave responsibly towards our clients.

We have continued to invest in our corporate communications during 2017, as we recognise that good communication is key to delivering high levels of engagement. It helps employees to understand and deliver our strategic objectives. We communicate regularly through a variety of channels, including management briefings, videos, an internal magazine and a social intranet. Annual 'Inside Schroders Live' meetings are held with the Group Chief Executive to discuss the progress made by the business and future objectives and challenges. Similar events are held across our offices globally.

High ethical standards

We promote high ethical standards and have a strong culture of doing the right thing for our clients, our employees, our shareholders and other stakeholders. If an employee does have any ethical concerns, we have a whistleblowing policy, through which they can raise them. A widely publicised 24-hour hotline is available for employees to report any concerns anonymously. Personal securities trading by employees is subject to clearly defined internal policies.

Employees are not permitted to solicit or accept any inducements that are likely to conflict with their duties. We have policies in place and train employees on identifying potential tax evasion, gifts and entertainment, anti-money laundering, awareness of terrorist financing, anti-bribery, market integrity and data protection. Due diligence is undertaken before entering any material new client relationship and this is enhanced for higher risk countries, entities or individuals.

Retaining our talented people

We have a highly engaged, experienced and stable workforce, with 43% of employees having been with the firm for six years or more. Overall turnover in 2017 was 9% (2016: 9%). We focus on retaining our most talented employees and our retention of high performing employees remains high at 94% (2016: 95%).

Over 23% of roles across the Group were filled with internally developed talent (31% in the UK), as we provide our employees with the opportunities and experience they need to achieve their full potential. We invest heavily in developing their knowledge, skills and capabilities. Employees have access to a range of learning and development programmes in order to maintain and increase technical competence in their roles and align behaviours with our values.

As part of the Investment 2020 programme, Schroders provides opportunities for school leavers and graduates across the business. More than half of our 2016 trainees progressed to full time roles and the majority of those that did not stay at Schroders went on to attend university. In 2017 we also introduced our inaugural apprenticeship programme, which provides permanent roles for school leavers, with tailored training.

Competitive remuneration that reflects the performance of each employee and of the firm is important in retaining our people. Our approach is explained in the Remuneration report on pages 62 to 90.





Our impact on society

Committed to shaping future prosperity

Although our overall purpose is to help our clients build future prosperity, we also recognise the responsibility we have to wider society and other key stakeholders. We have always believed that demanding high levels of corporate responsibility (CR) is the right thing to do for a principle-led business such as Schroders.

More details on how we have engaged with our stakeholders can be found on page 53.

We view CR as the management of all of the environmental, social, governance (ESG), economic and ethical issues that make up our relationships with stakeholders and society. The development of our CR strategy has continued throughout this year, reinforcing our commitment to act responsibly and contribute to society.

Following a review of the United Nations' (UN) 2030 Agenda, we are supportive of the aims of the 17 Sustainable Development Goals which represent a comprehensive agenda for addressing the world's societal challenges. In 2017, our impact and commitment across a number of these areas has been demonstrated through work with our communities, our clients and the environment. Further information on our approach can be found in our Sustainability Annual Report at schroders.com/sustainability.

Our communities

Social mobility was a key theme for us in 2017. We achieved a top 50 ranking in the UK's first Social Mobility Employer Index for our work supporting high achievers from non-privileged backgrounds. We partnered with the Social Mobility Foundation and disability charity Action For Kids to deliver three successful 'Futures Days'. These provided insight into the asset management industry and world of work for high-achieving students from low income backgrounds and young adults with physical or learning disabilities. We also worked with both charities to launch internal work placement programmes across the business, and Action For Kids awarded Schroders an 'Inclusive Gold Partner' award at its annual recognition event.

Human rights

We aim for high standards of governance throughout the firm. We recognise the responsibility we have towards our stakeholders, including our employees and society as a whole, as well as the expectations of our clients and regulators. Our business model is intended to fully comply with applicable human rights legislation in the countries in which we operate.

Schroders is strongly opposed to slavery and human trafficking and will not knowingly support or conduct business with any organisation involved in such activities. Our business is undertaken predominantly in countries with a clear commitment in this area and the vast majority of our major suppliers are headquartered in low risk countries. As a responsible investor we have examined modern slavery risks across our holdings in high risk sectors.

As an asset management firm with relatively simple supply chains, predominantly comprising business and professional services organisations, we believe that there is low risk of slavery or human trafficking taking place within our supply chain. Nevertheless, we use a combination of supplier due diligence, employment policies and employee training to support this. More information can be found in our Slavery and Human Trafficking Statement at schroders.com/slavery.

Charitable giving

We are proud to support the communities in which we operate and actively encourage our employees to do the same. We have a long history of positively contributing to local communities through donations and employee time. In 2017 we donated £2.0 million to charitable causes around the world (2016: £1.5 million), £783,000 of which was outside the UK (2016: £464,000). Our emphasis remains on supporting our employees through Give As You Earn payroll giving and in the UK 29% of our employees donated to charitable causes in this way (2016: 29%). We also offer fundraising matching to support employee fundraising efforts.

In addition to financial donations, we have provided gifts in kind, organised frequent charitable collections and encouraged our employees to share their knowledge, skills and capabilities with charitable organisations through volunteering. To support our employees giving back to communities, we offer time matching for volunteering hours completed outside of working hours, and up to 15 hours of volunteering leave a year. Last year employees globally volunteered over 1,000 working hours.

Our clients

Social and environmental change is happening faster than ever. The challenges posed by climate change, inequality and demographics are sizeable.

For fund managers navigating this backdrop, consistently delivering positive investment outcomes can be challenging. We believe that taking a sustainable approach is key to managing this challenge. We focus on identifying well-managed businesses, understanding the risks and opportunities of environmental and social change, and actively engaging to improve company behaviours and governance.



Some examples of fundraising and volunteering undertaken around the world in 2017:



UK

Our London offices joined forces with the wider asset management industry to support the 2017 CASCAID appeal, raising money for Cancer Research UK. After matching, we contributed over £200,000 of the total £2.4 million raised with a number of employee-led events, including a team abseil of Broadgate Tower in the City of London. Speaking about the initiative, Phil Middleton, Co-Head of UK Intermediary and CASCAID Ambassador, said: "It has been a fantastic initiative getting the whole industry together, clients and competitors alike."



North America

Our US digital team organised a STEM (science, technology, engineering and mathematics) volunteer day at a lab built for children with special educational needs. The team spent a day working with children on new technology including 3D printers and robotic arms. Josh Draper, Developer, said: "Spending time volunteering in an area outside your normal routine enriches our lives beyond anything we can imagine. Using our volunteer days gives a real example of how employees can leverage this great benefit to help others."



Asia Pacific

In partnership with Hondao Senior Citizen's Welfare Foundation, employees in our Taipei office ran a series of free financial fraud education seminars for senior citizens. To make their sessions more engaging, the team partnered with a local opera group and produced their own performance to encourage audience participation. A Hondao employee said: "The senior citizens were so involved and enjoyed the experience – it really attracted their attention."

Our impact on society continued

Our commitment to integrating ESG factors into our investment process began in 1998. We now have a team of 12 people working across asset classes and geographies. ESG factors are integrated in our core investment processes and we are launching new funds designed to meet client demand for a more sustainable investment approach.

Stewardship

In 2017 we engaged with companies more than 1,000 times on ESG matters – an increase of over 100% from two years ago. We have addressed a wide range of issues ranging from cyber risk to responsible lending in auto finance. We voted at over 5,000 company AGMs around the world, and our votes against management have increased in recent years.

In 2017 we were ranked as the top European Asset Manager for Responsible Investment performance by ShareAction. We also received a UNPRI A+ ranking for strategy, governance, equity, credit, fixed income and sovereign fixed income and an A for real estate.

We are also a founding signatory of the 'Climate Action 100+' initiative, a five year collaborative engagement project to engage over 100 of the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

As well as our quarterly and annual reports, we regularly publish thematic research, and our voting records at schroders.com/sustainability.

Climate change

Climate change is a major investment risk and one to which we are devoting increasing resources. A solution will require co-operation across the stakeholder groups, including clients, companies and policymakers.

We are committed to reporting in accordance with the Task Force on Climate-related Financial Disclosures recommendations and have also signed up to a Global Investor Statement on Climate Change. This group is committed to taking steps towards a low carbon and climate resilient investment approach.

In 2017 we wrote to 125 non-disclosing companies outlining the importance of transparency and disclosure of their exposure to climate risks and opportunities. We have also supported 50 climate related shareholder resolutions, including co-filing at Exxon to request improved disclosure on the impact of public climate change policy on the business.

More information on our approach to climate change and related investment issues can be found at schroders.com/climatechange.

The environment

As part of our commitment to responsible consumption and production, we aim to minimise the impact that our own business has on the environment. We constantly review opportunities to minimise the environmental impact of our operations and to deliver continuous improvements in our environmental performance.

In 2015, we set renewable energy targets for the first time. We achieved our target of sourcing over 60% of our global electricity supply from renewable sources by the end of 2016. We have recently signed up to the Climate Group and CDP's RE100 initiative, which brings together more than 100 businesses globally. As part of this commitment, we are aiming to increase our use of renewable energy to 75% by 2020 and 100% by 2025. By the end of 2017 we had reached a total of 70% renewable energy globally and we anticipate our membership of RE100 will help us towards our final goal.

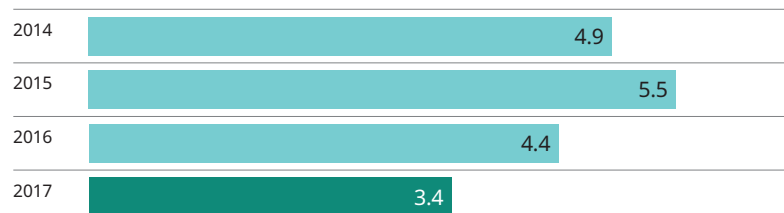
We continue to participate in the Dow Jones Sustainability Index and the CDP climate change program and have demonstrated a continual reduction of our electricity consumption, achieving the Carbon Saver Gold standard for the last 10 years.

We use DEFRA's conversion factors to calculate our CO₂e emissions for all consumption apart from overseas electricity, for which we use the International Energy Agency's conversion factors as recommended by DEFRA. Our data has been verified and further information is disclosed in our CDP submission. Our total carbon output in 2017 has reduced by 9.6%.

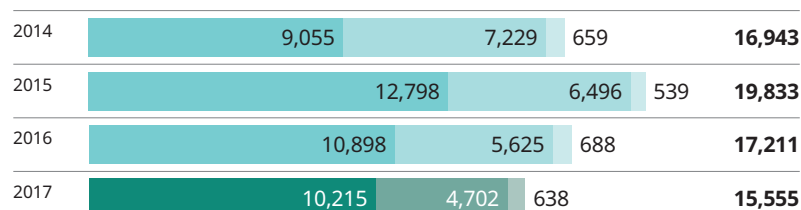
For the last three years, we have used the internationally accepted GHG Protocol Corporate Standard for reporting.

We continue to prepare for the transition to our new UK headquarters at 1 London Wall Place, which provides opportunities for some notable improvements in energy and water usage and access to high quality green spaces.

CO₂e emissions per employee (tonnes)



Total CO₂e emissions (tonnes)



- Scope 1: Natural gas, oil and company-owned vehicles
- Scope 2: Electricity
- Scope 3: Business travel

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 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

Taxes borne 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 2017 was £250.4 million (2016: £225.3 million).

Taxes collected

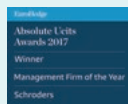
Companies also have an important role in collecting and administering taxes on behalf of governments, where the cost of the tax is borne by others. This includes income tax and social security payments deducted from our employees' remuneration and indirect taxes charged to our clients.

The total tax collected in 2017 was £238.4 million (2016: £228.8 million).

Total taxes borne and collected in 2017 were £488.8 million (2016: £454.1 million).

Further information on the taxes borne and collected can be found at schroders.com/taxtransparency.

Corporate awards



EuroHedge Absolute UCITS Awards – Management Firm of the Year



Funds Europe Awards – Digital Brand of the Year



Investment Week Marketing and Innovation Awards – Marketing Team of the Year



Investment Europe Fund Manager of the Year Awards – Group of the Year



Fitch Rating Investment Management Quality Rating: Excellent



Magic Circle Awards – Charity Investment Manager of the Year

Membership and awards



We received the Payroll Giving Quality Mark Platinum Award.



We have signed up to the RE100 initiative, committing to increase our use of renewable energy to 100% by 2025.



We signed the Women in Finance Charter in May 2016, a pledge for gender balance across financial services.



We are an accredited Living Wage Employer.



We are a member of the City Mental Health Alliance (CMHA).



We are included in the FTSE4Good Index series.



We are a member of OUTstanding, the professional network for LGBT+ executives and future leaders and their allies.



We participate in the CDP's climate change program.



We are a member of The Business Disability Forum.



We are a member of Working Families, the UK's leading work-life balance organisation.



We are a signatory and association member of UN PRI.



We are included in the Dow Jones Sustainability Indices (DJSI).

Risk management culture focused on integrity and good conduct

The Group is exposed to a variety of risks as a result of its business activities. Effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. The Group places significant focus on the integrity and good conduct of employees and the risk management framework is underpinned by a strong ethical culture with clear oversight responsibilities. This section explains how we control and manage the risks in our business. It outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current environment.

Managing risk

The Board is accountable for risk and oversight of the risk management process. It considers the most significant risks facing the Group and also uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive Director oversight of the risk management process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee, more details of which are on page 60.

It is the responsibility of all employees to uphold the control culture of Schroders. We embed risk management within all areas of the business. Members of the Group Management Committee (GMC) have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture and core values of the Group.

The Group Chief Executive and the GMC, as the principal executive committee with responsibility for the monitoring and reporting of risk and controls, regularly review the key risks facing the Group.

The executive Director oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and independent monitoring and reporting of risks and controls is supported by the Group Head of Risk.

The Chief Financial Officer chairs the Group Risk Committee (GRC) which meets ten times a year. The GRC supports the Chief Financial Officer and the GMC in discharging their risk management responsibilities. The committee is attended by the heads of the control functions (Group Risk, Compliance, Legal and Internal Audit) along with chief operating officers from across the business and senior managers from Distribution, Product and Wealth Management. Other GMC members regularly attend. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and current exposures to our key risks and considers issues as they arise. The GRC and the Wealth Management Audit and Risk Committee receive reports relating to the risk profile of Wealth Management.

Lines of defence

The first line of defence against undesirable outcomes is the business functions themselves and the line managers across Asset Management, Wealth Management and Infrastructure. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks.

Line management is supplemented by the control and oversight functions, including Group Risk, Compliance Legal and Governance, Finance, Tax, and Human Resources, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of relevant key processes against regulatory requirements.

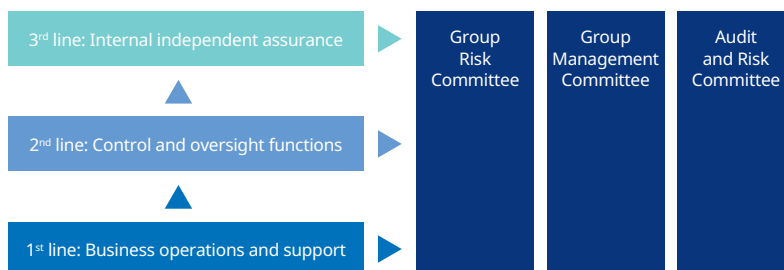
Group Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors.

Lines of defence

Overview

External independent assurance

Three lines of defence



Schroders maintains comprehensive insurance cover with a broad range of policies covering a number of insurable events.

2017 developments

Management of our key risks has remained a priority throughout 2017. In particular, we have focused on further enhancing our operational risk framework and embedding conduct risk management in our business lines.

Specific initiatives were undertaken which cover a wide range of activities across the Group and are outlined below:

- We enhanced our skills and experience in the UK, US and Asia Pacific to ensure a smooth transition to our new front office technology platform which will provide a more comprehensive risk management capability.
- As an integral part of the corporate investment process, we have worked alongside our business teams performing due diligence on inorganic opportunities to fully assess the risks.
- We expanded our risk framework to consider our growing business activities in China, including our Wholly Foreign-Owned Enterprise.

- We performed ongoing monitoring of our risk appetite measures and metrics and enhanced these in certain areas, such as information security.
- Through our Information Security Risk Oversight Committee, we have developed risk appetite metrics to ensure we remain in a good position to manage cyber threats. We commissioned an external review of our security framework, including governance, capabilities and strategy, to ensure the inventory of planned enhancements remain appropriately prioritised.
- We performed further work to consider model risk and to manage user developed tools. We have also developed an approach to assess the risks when we deploy robotics, as this is a key business initiative for us.
- The Risk and Control Assessment (RCA) process continues to be a key part of our Risk Management Framework and is summarised in the diagram below. In 2017, we broadened the range of risks that are included and assessed within RCAs to provide a more comprehensive assessment. To support this activity we are upgrading our technology to manage RCAs, which will improve our aggregation, oversight and reporting.

Risk and control assessment process



Viability statement

In accordance with the UK Corporate Governance Code, the Directors have carried out a robust assessment of the key risks facing the Group and expect Schroders plc will continue to be viable for at least the next five years.

Assessment of prospects

A five year period to December 2022 is in line with the Group's strategic business planning and forecasting period. The Group's strategic and financial planning process includes a detailed review of the business model and key planning assumptions. It is led by the Group Chief Executive and Chief Financial Officer in conjunction with management teams, with the one year outlook most recently updated in February 2018. Notwithstanding the five year viability horizon, the business plan addresses the longer term headwinds that the business currently expects to face, to ensure that the business model adapts to the changing environment. The business plan is based on the Group's strategy which is summarised on page 14.

Key assumptions included AUMA growth from both markets and net new business; changes to net operating revenue margins due to changes in business mix, planned business activity and industry-wide margin pressures; and additional costs comprising the expected total compensation cost ratio and non-compensation costs including from the Group's continued investment in technology, increased accommodation costs and costs driven by regulatory requirements.

Progress against financial budgets and key objectives are reviewed throughout the year by both the Directors and the GMC along with periodic reviews of the capital and dividend policy.

Assessment of viability

An assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group, which are outlined on the following page. The Directors review the key risks regularly and consider the options available to the Group to mitigate these risks to ensure that the ongoing viability of the Group is sustained. Stress testing is performed on the Group's business plan, based upon a number of the Group's key risks crystallising over the assessment period. The stress scenarios are consistent with those used in the Group's consolidated Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

The severe but plausible stress scenarios include the following factors which, where relevant, use assumptions more severe than the regulatory stress scenario established by the Prudential Regulation Authority (PRA):

- Outflows of our AUMA, or deterioration in the value of our AUMA, as a result of a market downturn, foreign exchange movements or poor investment performance;
- a more severe decline in net operating revenue margins reducing projected revenues, together with an increase in the ratio of total costs to net income; and
- the impact of a material operational risk event which could lead to reputational damage and outflows of our AUMA.

Having reviewed the results of the stress scenarios, the Directors have concluded that the Group would have sufficient capital and liquid resources in the above scenarios and that the Group's ongoing viability would be sustained. In drawing this conclusion, the business model was able to adapt to the changes in capital and liquid resources. The stress scenario assumptions include maintaining the Group's dividend policy but this and other commitments would be reassessed if the circumstances determined this to be necessary over the longer term. Furthermore, it is possible that the headwinds could be more severe or come sooner and have greater impact than we have determined plausible.

The Directors' current, reasonable expectation is that Schroders plc will be able to continue in operation, meeting its liabilities as they fall due, over a viability horizon of at least five years. The Board's five year viability and longer-term assessment is based upon information known today.

Key risks

Assessment of key risks

We have identified 21 key risks across Strategic, Business, Financial and Operational risk categories, as shown on the following page.

These risks have been assessed in light of the current environment, taking into consideration the views of subject matter experts and risk owners within the firm, market conditions, regulatory sentiment and changes within the business. Threats with uncertain impact, probability and timeframe could impact the Group. We continuously monitor internal and external environments to identify new and emerging risks. We then analyse each risk and, if needed, develop and apply mitigation and management plans.

The Group determines which key risks it considers to be heightened, for example those that are more costly if they materialise. We then undertake further work to actively manage these. When considering these risks, we also take account of the objectives of regulators to ensure market integrity, appropriate consumer protection and promotion of competition within the industry. The diagram on the following page shows the relative position of our risks and is an outcome of our assessments.

We remain vigilant in considering the impact of Brexit on our business model and have described this further at the end of this section.

Strategic risks

- 1 Changing investor requirements
- 2 Market returns
- 3 Fee attrition
- 4 Regulatory landscape change
- 5 Business model disruption

Business risks

- 6 Reputational risk
- 7 Investment performance risk
- 8 Product risk
- 9 Business concentration risk

Financial risks*

- 10 Market risk
- 11 Credit risk
- 12 Liquidity risk
- 13 Risk of insufficient capital

Operational risks

- 14 Conduct and regulatory risk
- 15 Legal risk
- 16 Tax risk
- 17 Process and change risk
- 18 Fraud risk
- 19 Technology and information security risk
- 20 People and employment practices risk
- 21 Third party service provider risk

Reporting on our material risks

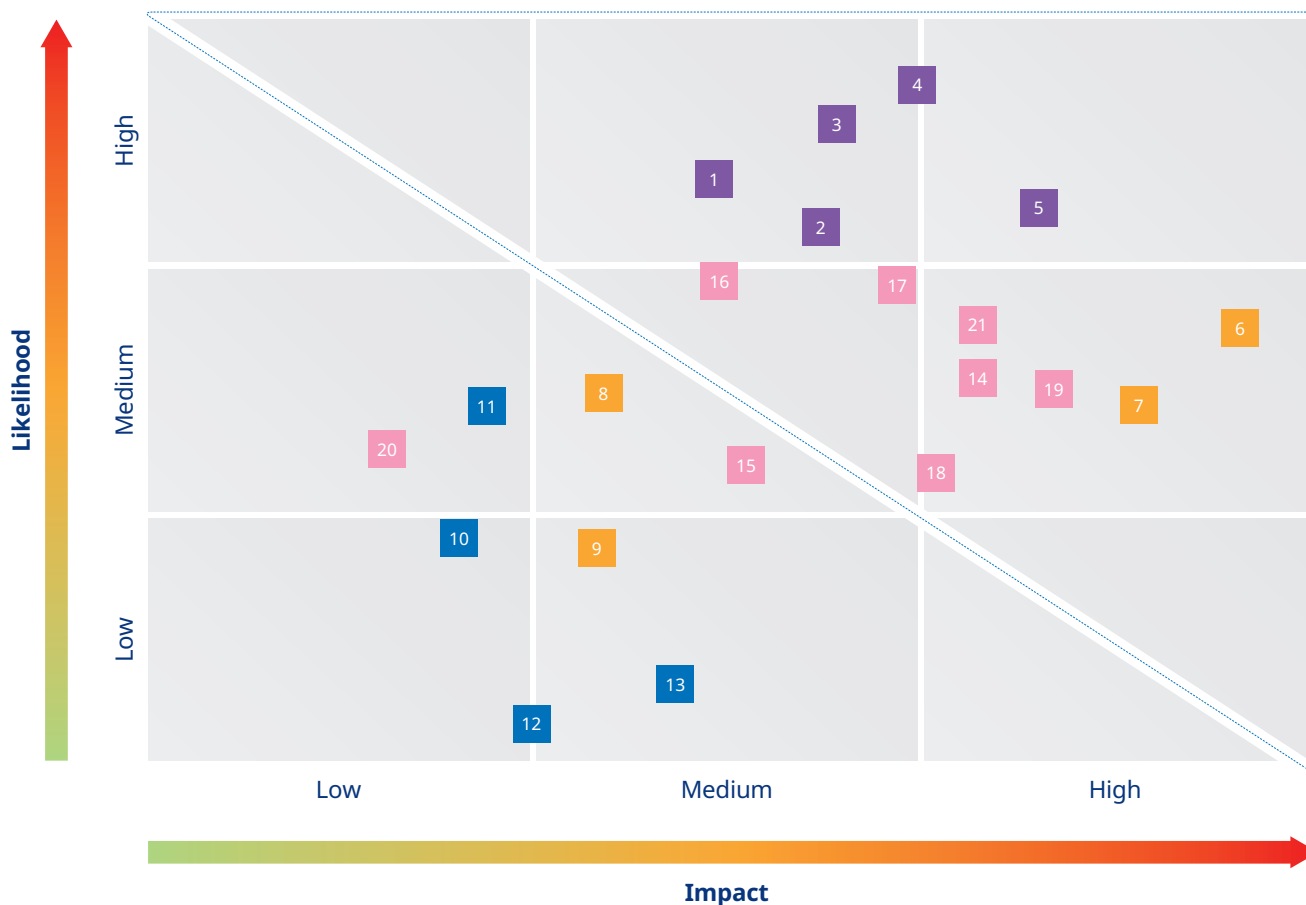
The diagram below illustrates our key risks. The horizontal axis shows the impact of a key risk if it were to materialise and the vertical axis shows the likelihood of this occurring. The scales of each axis are set on a relative basis between each risk and are based on the residual risks.

The risks that we consider to have either a higher likelihood of impacting the organisation, or with a higher likelihood of occurring, are shown above the diagonal line. Details of these risks, and how we manage them, are described in the tables on the following pages.

A summary of other key risks is set out on pages 42 and 43.

* Financial risks are considered in note 19 of the financial statements.

Risk impact matrix



Key risks

The table below details our heightened key risks.

Key risk	Description
Changing investor requirements 1	<p>Growth in demand for investment solutions that are not currently offered by the Group. This may include index tracking strategies or certain products where Schroders does not currently offer the investment capability.</p> <p>Regulated clients derisking due to the impact of regulatory capital changes, where clients reallocate investments to capabilities that are not currently offered by the Group or at a lower margin.</p> <p>Movement from defined benefit (DB) to defined contribution (DC) pension plans in a number of countries such as the UK, Japan, South Korea and Taiwan.</p> <p>Consolidation of local authority pensions in the UK, reducing the associated fee pool.</p>
Market returns 2	<p>Our income is derived from the assets we manage. A considerable and sustained decline in markets is outside our control but may contribute to a significant fall in revenues.</p>
Fee attrition 3	<p>A lower fee environment and the impact on our business model of margin attrition due to:</p> <ul style="list-style-type: none"> - Changes in investor demand, driven by derisking, or a focus on lower fee margin products; - Compressed investment returns leading to greater fee sensitivity; - Moves towards vertical integration (advice, platform and investment management services, which may lead to investor and IFA risk for participants) within the industry, increasing competition and pressure on fee revenue as active managers may be disintermediated; - Rising costs within the industry, driven by changing and increasing regulatory requirements and technological advancement which impact margins; - Industry pricing pressures from competitors, forcing fee cuts in order to remain competitive; and - Consolidation of preferred distributors or partners, increasing buying power.
Regulatory landscape change 4	<p>Regulators have moved their focus from the prudential and misconduct issues affecting investment and retail banks, to other parts of the financial system, particularly asset managers.</p> <p>There is an increased regulatory focus on transparency of objectives, pricing, fees and other indirect costs borne by end investors and clients.</p> <p>The associated operating costs of compliance reduce net profits (e.g. MiFID II, PRIIPs, the potential introduction of minimum levels of fund liquidity and the outcomes of other regulatory reviews, such as the UK FCA's Asset Management Market Study, the CMA's market investigation into investment consultancy and fiduciary management services and the FCA's market study of investment platforms).</p> <p>The implications of Brexit, especially with respect to any changes to the ability to delegate activities outside the EU, remain uncertain, although a transitional period is now more likely.</p> <p>Changes to intermediary commission and incentive structures and obligations are affecting intermediaries' product selection processes. Regulation of distribution through digital channels and robo-advice may also change.</p>
Business model disruption 5	<p>The rise of technology solutions from competitors that disrupt our value chain including competition from quantitative investment technologies that have the potential to assimilate more data and make investment decisions, and that may be perceived to realise alpha more efficiently than active managers.</p> <p>Competitors are consolidating through merger and acquisition activities. They are increasing scale, broadening investment capabilities and expanding distribution channels resulting in stronger relative market positions.</p> <p>Increased investment and asset allocation through robo-advice services, providing automated investment capabilities and potentially displacing active management.</p> <p>Inability to meet demand for products and solution-based offerings due to our capabilities being inadequate relative to requirements.</p> <p>Concentration of risks associated with consolidation of key counterparties that support our business operations where alternative providers are not easily identifiable or where there are significant transition challenges.</p>

How we manage risk

Our Product and Solutions function is distinct from Investment and Distribution, in order to focus on development of new product strategies, innovation, client engagement and managing our diverse product range.

We continue to focus on developing our investment capabilities, expanding into new investment types and specific areas of expertise, and commit seed capital to support product innovation for future growth.

We deliver our value proposition using an approach based on our strategic capabilities, focusing attention where we believe we are able to make a significant difference for our clients or where we have current or future capabilities.

We adapt our business structure and cost base to manage the changing asset allocation requirements of our clients and the impact on our business.

We have diversified income streams across a range of markets to mitigate a considerable fall in any one area.

We strive to outperform our competitors with a view to attracting assets which may offset a decline or fall in any given market whilst pursuing best returns for our clients.

Our business is increasing its focus on solutions and other outcome-oriented strategies which diversifies our fee income.

We are also increasingly diversifying our product offering, representing our strategic capabilities, to address evolving investor needs, which supports overall profitability in the long term.

We have increased our access to private and other alternative investment assets and strategies through acquisitions and strategic relationships (e.g. infrastructure debt, securitised credit and private equity).

We made a strategic investment into Benchmark Capital which provides the opportunity to engage in business in different parts of the value chain in the UK.

Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams and our Regulatory Change Committee. We engage with our regulators in relation to potential and planned changes in regulation.

We are actively considering all implications that may arise from Brexit and are planning accordingly. We engage in debates when the opportunity arises. More information as to how we will be positioned with respect of our EU activities after Brexit is provided on page 42.

Our increasingly diverse product offering enables us to meet the changing needs of clients driven by evolving regulation.

We are driving increased efficiencies and insights through technology, including investment in data science to obtain investment insights from non-traditional data sources and upgrading our front office systems.

Digital initiatives are in progress to improve client experience, engagement and servicing through our web and mobile platforms, e.g. single web platforms and client behaviour analytics.

We are undertaking significant investment in our technology platform to support scalability, agility in product offerings, and our expanding private assets and alternatives business offerings.

We monitor the performance of our key counterparties on a regular basis, as well as establishing processes for regularly assessing alternatives.

Key risks and mitigations continued

Key risk	Description
Reputational risk 6	<p>The reputation of Schroders is of paramount importance and can be impacted by any of our key risks and by our relationships with clients, regulators and shareholders.</p> <p>This may arise from poor conduct or judgements or risk events due to weaknesses in systems or controls.</p> <p>Ineffective branding and marketing may impact our ability to grow our business.</p> <p>Reputational risk may also arise from inappropriate client relationships or mandates which have adverse implications for the Group.</p>
Investment performance risk 7	<p>The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent and above-average performance.</p> <p>The risk that clients move their assets elsewhere if we are unable to outperform competitors or our investment objectives.</p>
Conduct and regulatory risk 14	<p>The risks of client detriment arising from inappropriate conduct, conflicts, management practice or behaviour, or failing to meet client needs, interests or expected outcomes.</p> <p>The risk of money laundering, bribery or market abuse shortcomings on the part of fund investors, clients, suppliers or our employees.</p> <p>The risk of fines, penalties, censure or other sanctions arising from failure to identify or meet regulatory requirements.</p> <p>The risk that new regulations, or changes to existing interpretations of them, have a material effect on the Group's operations, risk profile or cost base and are complex to implement and difficult to manage.</p>
Tax risk 16	<p>The Group and its managed funds are exposed to:</p> <ul style="list-style-type: none"> - compliance and reporting risks, which include the submission of late or inaccurate tax returns; - transactional risks, which include actions being taken without appropriate consideration of the potential tax consequences; and - reputational risks, which cover the wider impact that our conduct in relation to our tax affairs can have on our relationships with our stakeholders.
Process and change risk 17	<p>The risk of failure of significant business processes, such as mandate compliance, client suitability checks and asset pricing.</p> <p>Poor execution of acquisitions or management of strategic relationships which fail to deliver intended benefits in terms of revenue or costs.</p>
Fraud risk 18	<p>Fraud could arise from either internal or external parties who attempt to defraud the firm or our clients by circumventing either our processes and controls or the controls operated by our third party providers (e.g. within our outsourced transfer agency activities).</p>
Technology risk and information security 19	<p>Technology and information security risk relates to the risk that:</p> <ul style="list-style-type: none"> - our technology systems and support are inadequate or fail to adapt to changing requirements; - our systems are penetrated by third parties; or - our data is held insecurely.
Third party service provider risk 21	<p>Third party service provider risk relates to the risk that suppliers may not meet their agreed service level terms.</p> <p>We have a number of outsourced supplier relationships as part of our business model, particularly in respect of information technology, fund administration, custody and transfer agency services.</p>

How we manage risk

High standards of conduct and a principled approach to regulatory compliance are integral to our culture and values. We consider key reputational risks when initiating changes in strategy or our operating model.

We have a number of controls and frameworks to address other risks that could affect our reputation including: financial crime, investment risk, client take-on and product development.

We have rebranded to ensure our marketing remains relevant and effective and supports our strategic objectives and product offerings.

We have clearly defined investment processes designed to meet investment targets within stated risk parameters. The Group's Investment Risk Framework provides review and challenge of investment risks, independent of our fund managers, across all asset classes. Investment monitoring is performed by fund managers and asset class heads on a regular basis, as well as by asset class risk committees, the GMC and legal entity boards.

Recognising that products may not outperform all of the time, we offer clients a diversified product set. Key to investment performance is our ability to attract and retain talented people.

We promote a strong compliance culture and we promote good relationships with our regulators. Our Compliance function supports management in identifying our regulatory obligations and enabling these to be met through relevant training and procedures. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.

Our approach to encouraging appropriate conduct and minimising the risk of client detriment is set out in our conduct risk framework, and is built on our culture and values, supported by appropriate governance and reporting.

Risk-based client take-on and review processes are among our key controls to address the risks of money laundering. Financial crime oversight is provided by the Financial Crime Committee.

Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams and our Regulatory Change Committee. We engage with our regulators where appropriate in relation to potential and planned changes.

Our approach to managing tax risk is set out in our tax strategy. This is reviewed by the Audit and Risk Committee annually. It is supported by a tax governance framework, which aligns to the Group's wider risk and control framework. Key risks and issues are escalated to the GRC and the Audit and Risk Committee.

The Tax function works with management and advisers to monitor the tax position of the Group. Local management, with oversight from our Tax function, is generally responsible for identifying and managing the tax position of our managed funds, with the assistance of third party service providers. Developments in taxation are monitored by the Tax function and local management. We engage with industry organisations and advisers to keep abreast of relevant tax changes.

Our key business processes have been identified and the risks assessed by first line of defence owners through the RCA process.

This process is used to determine the adequacy and effectiveness of key controls; with second line providing oversight and challenge. Associated controls are assessed with regard to their design and performance. Output from the RCA process is presented to the GRC.

As part of our due diligence process when we consider an acquisition or strategic partnership, we identify areas to be remediated after a transaction is completed. Subject matter experts will be involved throughout the transition.

Policies and procedures are in place to manage fraud risk. Controls in place to manage fraud risk are assessed as part of the RCA process. Attempted or any successful frauds are investigated by the Financial Crime team, with oversight from Group Risk.

The Financial Crime Committee provides oversight of the management of Fraud risk and is a sub-committee of the GRC.

Formal governance over information risks has been established across the three lines of defence through the Information Security Risk Oversight Committee. The Group holds insurance to cover cyber risks.

Policies and technical standards, including security awareness training, have been deployed across the Group.

Robust project management, assessment of business requirements and management of implementation risks are utilised.

The Audit and Risk Committee reviews all material outsourced relationships, focusing on significant aspects such as service quality and risk management.

Policies are in place that govern our approach to appointing, managing and performing relevant due diligence of third party service providers including regular reviews of performance against agreed service levels. Minimum requirements are established for overseeing service provider risk and performance, and we perform risk assessments on service providers deemed critical to business operations.

Key risks and mitigations continued

Lower rated key risks

The key risks that appear below the diagonal line in the risk impact matrix are summarised in the following table.

Key risk	Description
Product risk 8	The risk that our product or service range is not suitably diversified or viable or does not provide access to strategies sought by investors or meet their objectives.
Business concentration risk 9	The risk of insufficiently diversified distribution channels, products, clients, markets, or income streams resulting in a decline in fee revenue if investor demands change.
Market risk 10	Market movements may cause a fall in the value of principal investments and a decline in the value of our proprietary assets.
Credit risk 11	Counterparty capital exposure arising from client transactions and lending activities, principal cash and investment holdings.



Our business model and Brexit

On 29 March 2017, the British government invoked Article 50, beginning the two year countdown to the United Kingdom withdrawing from the European Union. Negotiations continue but uncertainty remains and there is a range of possible outcomes and timeframes for many aspects of the UK's exit.

Schroders is well positioned to manage the challenges that may arise as a result of Brexit. Whilst all the legal and regulatory changes of Brexit are not yet clear, our diversified business model means that we are well placed in deciding how best to respond and to continue to service our clients and grow our business. Over 80% of our net operating revenue comes from clients who are based outside the EU27.

We have a long standing commitment to continental Europe, with a substantial presence involving more than 700 employees across nine offices. In Luxembourg, our European operations centre, we

Key risk	Description
Liquidity risk 12	Counterparty liquidity exposure arising from client transactions and lending activities, principal cash and investment holdings.
Risk of insufficient capital 13	The risk that the Group is unable to support its strategic business objectives due to its minimum regulatory capital restrictions.
Legal risk 15	Legal risk may arise from Schroders, clients or suppliers and other third parties failing to meet their legal obligations; Schroders taking on unintended obligations; or legal claims.
People and employment 20	People and employment practices risk may arise from an inability to attract or retain key employees to support business activities or strategic initiatives: non-compliance with legislation; or failure to manage employee performance.

have around 250 employees in Product, Risk, Compliance and other Infrastructure functions, and from there we distribute funds not just across borders within the EU, but also more widely across the world, delegating portfolio management to a number of jurisdictions.

Globally, our two largest fund ranges are in the UK and Luxembourg. The UK range is not actively marketed outside the UK. The Luxembourg range is predominantly comprised of EU27 and other non-UK investors. The UK government has said that they will, if necessary, introduce a regime to allow EU27-based funds to continue to be offered to clients based in the UK in the period immediately after Brexit.

We have obtained additional permissions in order to ensure that we can continue to offer our full range of services to European Institutional clients.



Pages 2 to 43 constitute the strategic report, which was approved by the Board on 28 February 2018 and signed on its behalf by:

Peter Harrison
Group Chief Executive

28 February 2018

Board of Directors



Michael Dobson

Chairman (65)

Appointed Chairman in April 2016, having been Chief Executive since November 2001. He first joined the Board as a non-executive Director in April 2001.

Experience: Prior to joining Schroders he was Chief Executive of Morgan Grenfell Group and a member of the Board of Managing Directors of Deutsche Bank AG.

External appointments: Member of the President's Committee of the Confederation of British Industry.

Committee membership: Chairman of the Nominations Committee.



Peter Harrison

Group Chief Executive (51)

Appointed Group Chief Executive in April 2016. He was an executive Director and Head of Investment from May 2014.

Experience: He began his career at Schroders and subsequently held roles at Newton Investment Management, JP Morgan Asset Management as Head of Global Equities and Multi-Asset and at Deutsche Asset Management as Global Chief Investment Officer. He was Chairman and Chief Executive of RWC Partners before re-joining Schroders as Global Head of Equities in March 2013.

External appointments: Chairman of the Investment Association and a member of the Takeover Panel.



Richard Keers

Chief Financial Officer (54)

Appointed a Director and Chief Financial Officer in May 2013.

Experience: He is a chartered accountant and was a senior audit partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices.

External appointments: Non-executive member of Lloyd's Franchise Board and Chairman of its Audit Committee.



Lord Howard of Penrith

Senior Independent Director (72)

Appointed Senior Independent Director in April 2015, having been a non-executive Director since November 2008.

Experience: He was Deputy to the Chairman of Lehman in Europe until 1998 and was the Partner in charge of international fixed income at Phillips & Drew. He was also Chairman of Tarchon Capital Management LLP from 1998 until March 2013. He will retire from the Board at the 2018 AGM.

External appointments: Senior Adviser to Beazley plc having previously held the position of Chief Investment Officer until the end of 2015.

Committee membership: Chairman of the Remuneration Committee. Member of the Nominations and Audit and Risk Committees.



Robin Buchanan

Independent non-executive Director (65)

Appointed in March 2010.

Experience: He was the Senior Partner of Bain & Company Inc. in the UK for 12 years and remains a Senior Adviser. Most recently he served as Chairman of PageGroup plc until December 2015. He was Dean and President of London Business School. He is a chartered accountant and holds an MBA from Harvard Business School.

External appointments: Non-executive Director of LyondellBasell Industries N.V. He is Chairman of the Advisory Board of Access Industries and a Director of CICAP Limited.

Committee membership: Member of the Nominations, Audit and Risk, and Remuneration Committees.



Sir Damon Buffini

Independent non-executive Director (55)

Appointed in February 2018.

Experience: He has over 25 years' experience in private equity, joining Schroder Ventures in 1988. He was Managing Partner of Permira from 1997 to 2007 before becoming Chairman. He retired in 2015 and remains a Senior Adviser.

External appointments: A governor of the Wellcome Trust, Chairman of the National Theatre, Senior Independent Director of the PGA Tour and was Chairman of the Government's Patient Capital Review.

Committee membership: Member of the Nominations Committee.



Rhian Davies
Independent non-executive
Director (53)

Appointed in July 2015.

Experience: She is a chartered accountant and was a partner at Electra Partners, an independent private equity fund manager, until June 2015 and then a Senior Adviser until March 2017. She previously worked in PwC's audit and insolvency practice before joining Electra in 1992.

Committee membership: Chairman of the Audit and Risk Committee. Member of the Nominations Committee.



Rakhi Goss-Custard
Independent non-executive
Director (43)

Appointed in January 2017.

Experience: She is an experienced executive in digital retailing having spent 11 years at Amazon. Prior to joining Amazon, she held roles at TomTom and in management consultancy in the US.

External appointments: Non-executive Director of Kingfisher plc, Rightmove plc, Intu Properties plc and Be Heard plc.

Committee membership: Member of the Nominations Committee.



Ian King
Independent non-executive
Director (61)

Appointed in January 2017.

Experience: He was Chief Executive of BAE Systems plc from 2008 to 2017 having been originally appointed to the BAE board as Chief Operating Officer, UK and Rest of the World. Prior to this, he was Chief Executive of Alenia Marconi Systems. He also served as a non-executive Director and Senior Independent Director of Rotork plc until June 2014.

External appointments: Senior Adviser to the Board of Gleacher Shacklock LLP, Chairman-designate of Senior plc and lead non-executive Director for the Department of Transport.

Committee membership: Member of the Nominations and Remuneration Committees.



Philip Mallinckrodt
Non-executive Director (55)

Appointed as an executive Director in January 2009 and a non-executive Director on 1 March 2017.

Experience: He started his career at Credit Suisse First Boston in 1985. He first joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002 as Head of Corporate Development, was Group Head of Wealth Management from 2006 to 2016 and then Group Head of Private Assets and Wealth Management until 1 March 2017.

External appointments: Non-executive Director of The Economist and a member of the International Advisory Council of the Brookings Institution.

Committee membership: Member of the Nominations Committee.



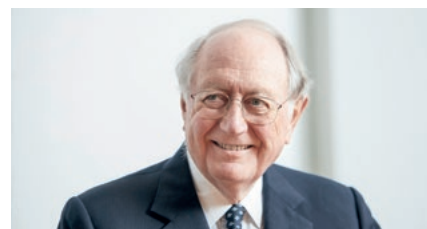
Nichola Pease
Independent non-executive
Director (56)

Appointed in September 2012.

Experience: She has over 30 years' experience in the asset management and stock broking industries. She was the Chief Executive and then Deputy Chairman of J O Hambro Capital Management Ltd from 1998 until 2008, following which she held a number of roles in the charity and public sectors.

External appointments: Founder and Chairman of Investment 2020 and a Member of the Eton College Investment Committee.

Committee membership: Member of the Nominations, Audit and Risk, and Remuneration Committees.



Bruno Schroder
Non-executive Director (85)

Appointed in January 1963.

Experience: He is the great-great-grandson of John Henry Schroder, co-founder of the Schroders businesses in 1804. He joined the Schroder Group in London where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd.

External appointments: Director of a number of private limited companies.

Committee membership: Member of the Nominations Committee.

Group Management Committee and Company Secretary



Peter Harrison

Group Chief Executive (51)

Responsible for the management of the overall business and strategic development of the Group.



Richard Keers

Chief Financial Officer (54)

Responsible for financial management, risk management, tax, capital and treasury, human resources, corporate services and a range of operational areas. He is also chair of the Group Risk, Group Capital and Global Operations Committees.



Stewart Carmichael

Chief Technology Officer (52)

He joined Schroders in March 2015 as Group Head of IT. Prior to joining Schroders, he was Chief Technology Officer for JP Morgan Corporate and Investment Bank in Asia. From 1993 to 2008 he held numerous senior leadership positions at Merrill Lynch.



Karl Dasher

CEO North America and Co-Head of Fixed Income (48)

He joined Schroders in 2008 as Global Head of Product and became Head of Fixed Income in October 2008. He previously worked at SEI Investments in various investment roles, including Chief Investment Officer.

He is responsible for the Group's operations in North America and is also Co-Head of Fixed Income within the Investment division.



Lieven Debruyne

CEO Asia Pacific (48)

He joined Schroders in London in 2000 as Head of Asian Investment Product before moving to Hong Kong in 2005. Prior to joining Schroders, he worked for Mees Pierson Capital Management as Chief Investment Officer and for Fortis Investments.

He is responsible for the Group's operations in the Asia Pacific region.



Emma Holden

Global Head of Human Resources (43)

She joined Schroders in 2007 and was appointed Global Head of Human Resources in November 2014. Prior to joining Schroders, she held various roles at Corus Group. She qualified as a chartered accountant with PwC in 1998.

She works with senior management on the issues that affect our people and the development of talent throughout the business.



Johanna Kyrklund

Global Head of Multi-Asset Investments (41)

She joined Schroders in 2007 as Head of UK Multi-Asset and became Global Head of Multi-Asset Investments in 2016. She previously worked at Insight Investment and Deutsche Asset Management in various fund management and asset allocation roles.

She is responsible for investments on behalf of multi-asset clients globally.



Philippe Lespinard

Co-Head of Fixed Income (54)

He joined Schroders in 2010 as Chief Investment Officer for Fixed Income. He was previously a partner at Brevan Howard and Chief Investment Officer at BNP Paribas Asset Management.

He is Co-Head of Fixed Income within the Investment division.



Richard Mountford

Head of Planning, Adviser to the Group Chief Executive (59)

He joined Schroders in 1980 as a graduate and held a number of investment and management roles before becoming Global Head of Intermediary Sales in 2008, Head of Asia Pacific in 2012 and Global Head of Product in 2016.

He is responsible for planning Schroders' organic and inorganic growth initiatives.



Charles Prideaux

Global Head of Product and Solutions (51)

He joined Schroders in October 2017. Prior to joining Schroders he held senior roles at BlackRock including Head of the EMEA Institutional Client Business and most recently as Head of the European Active Investment Platform.

He is responsible for our Global Product and Solutions business.



Nicky Richards

Global Head of Equities (51)

She began her investment career at Schroders as a graduate in 1987. She held a number of senior roles in the firm before joining Fidelity International and then MLC Investment Management in Australia. She re-joined Schroders in 2014 as Global Head of Equities. She was appointed non-executive Chairman of RWC Partners in March 2016.

She is responsible for the Equities investment business.



Andrew Ross

Global Head of Wealth Management (58)

He joined Schroders in 2013 having been Chief Executive of Cazenove Capital Management since 2001. Prior to that he was Chief Executive of HSBC Asset Management (Europe) Limited between 1998 and 2001.

He is responsible for the Wealth Management division.



Carolyn Sims

Chief Financial Officer of Wealth Management (52)

She joined Schroders in 2013 having been Chief Financial Officer of Cazenove Capital Management since 2007. Prior to that she was Finance Director at Lazard UK between 2004 and 2007.

She is responsible for finance and operations within the Wealth Management division.



John Troiano

Global Head of Distribution (59)

He began his career at Schroders as a graduate in 1981. After holding a number of senior roles, he was appointed the Deputy Head of Distribution in September 2012 and was appointed Head of Distribution in 2016.



Howard Trust

General Counsel (63)

He joined Schroders in 2003 from Barclays where he held various roles including Group General Counsel and Board Secretary.

He is responsible for the Group's Compliance, Legal and Governance function.

Members who left the Committee in 2017

Geoffrey Blanning and Huw van Steenis stood down from the Committee on 31 December 2017. Their biographies are set out in the 2016 Annual Report and Accounts.

Philip Mallinckrodt stood down from the Committee and became a non-executive Director on 1 March 2017.



Graham Staples

Group Company Secretary (56)

He joined Schroders in 2004. Previously, he held senior company secretarial, compliance and business development roles at NatWest, Barclays, TSB and Computershare.

As Secretary to the Board of Schroders plc and the GMC, he is responsible for the Group's governance framework and advising the Board and GMC on all governance matters.

A strong governance framework is vital to the continued success of the firm

I am pleased to introduce our corporate governance report for 2017 in which we describe our governance arrangements, the operation of the Board and its Committees and how the Board discharged its responsibilities during the year.

Governance

2017 has been an important year for corporate governance with the publication of the UK Government's Green Paper on Corporate Governance, the BEIS Committee inquiry, and the Financial Reporting Council's review of the UK Corporate Governance Code. Our Board has, with the Group Company Secretary, been closely monitoring these developments and assessing how our own governance arrangements may need to evolve. We firmly believe that having a strong corporate governance framework is vital to good decision making and to the continued success of the Company.

Board Changes

Philip Howard joined the Board in November 2008 and is currently Senior Independent Director and Chairman of the Remuneration Committee. Philip will stand down at the 2018 AGM. We began the search to find Philip's successor on the Board in 2017, appointing MWM Consulting to assist with the recruitment and we were delighted to announce that Sir Damon Buffini joined the Board on 1 February 2018. Ian King will succeed Philip as Senior Independent Director and Nichola Pease will succeed him as Chairman of the Remuneration Committee. More details on our approach to succession are included in the Nominations Committee Report from page 54.

Culture

As I said in my introduction to this report last year, the Board understands the importance of a good culture and we continue to believe that our culture represents a key competitive advantage. Schroders values integrity and always seeks to act in the best interests of clients, shareholders and wider stakeholders. Our employees exhibit the firm's values of passion and integrity and we always take a long term view in the management of our business.

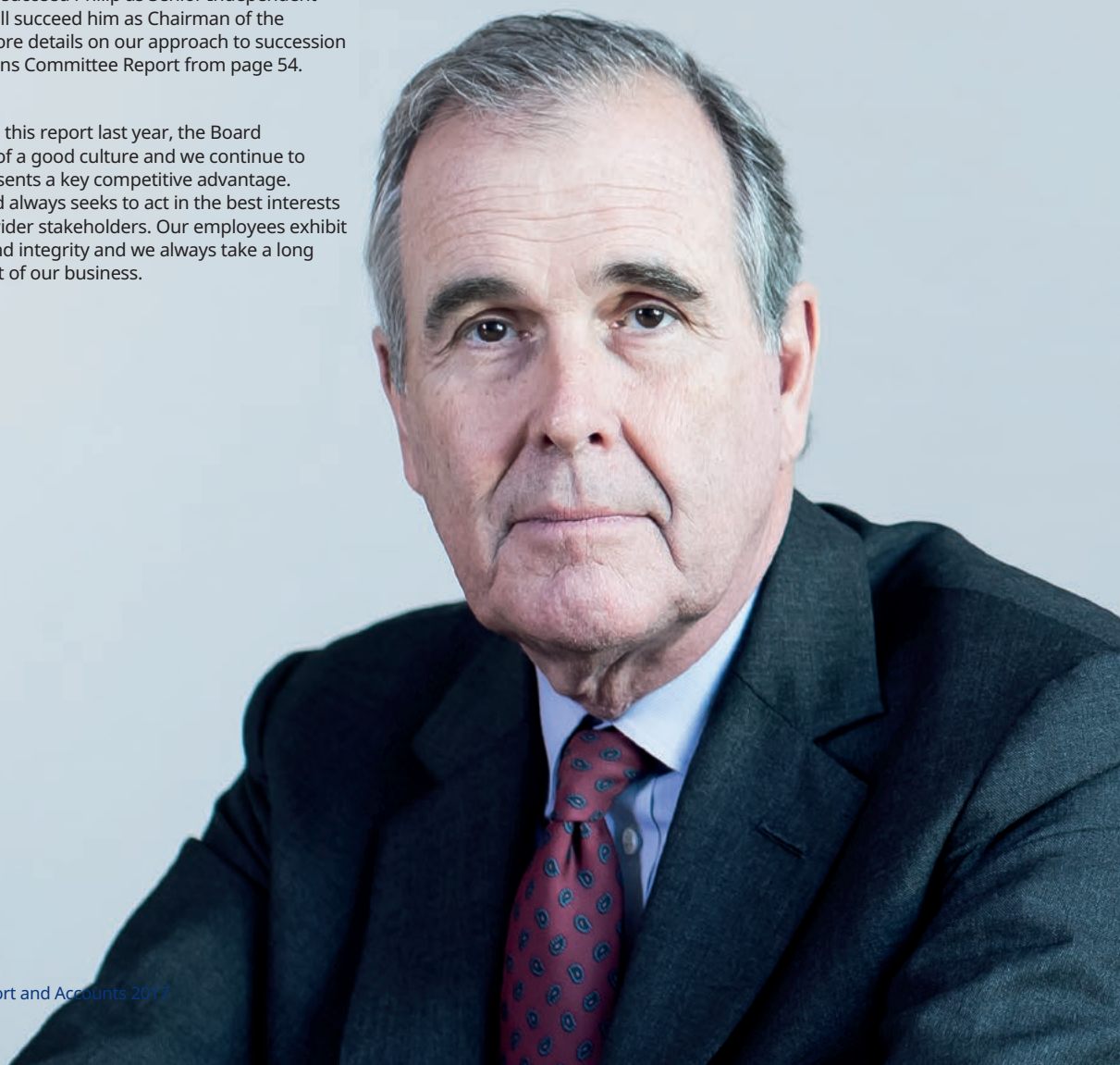
Strategy

Strategic opportunities and challenges have been the key area of focus at each of our Board meetings during the year. Despite the many challenges facing the asset management industry, the Board has confidence in the strategic direction of the Company and our ability to deliver strong financial performance and long-term shareholder value.

I would like to thank all my colleagues on the Board for their contribution during the year.

Michael Dobson
Chairman

28 February 2018



Directors are expected to attend all meetings of the Board and Committees on which they serve. Details of Board and Committee attendance are included in the table below.

2017 Board and Committee meeting attendance	Board ¹	Audit and Risk Committee	Remuneration Committee	Nominations Committee
Michael Dobson	6(6)			4(4)
Executive Directors				
Peter Harrison	6(6)			
Richard Keers	6(6)			
Non-executive Directors				
Philip Howard	6(6)	5(5)	5(5)	4(4)
Robin Buchanan ²	6(6)	5(5)	4(5)	4(4)
Rhian Davies	6(6)	5(5)		4(4)
Rakhi Goss-Custard	6(6)			4(4)
Ian King ³	6(6)		2(2)	4(4)
Philip Mallinckrodt	6(6)			4(4)
Nichola Pease	6(6)	5(5)	5(5)	4(4)
Bruno Schroder ⁴	5(6)			3(4)

1. There were five scheduled Board meetings held during the year and one additional Board meeting to discuss the acquisition of Adveq.
2. Robin Buchanan missed the Remuneration Committee meeting on 12 October 2017 due to a prior commitment.
3. Ian King was appointed as a member of the Remuneration Committee on 25 July 2017.
4. Bruno Schroder was unable to attend the Board and Nominations Committee meetings in New York due to illness.

Compliance with the 2016 UK Corporate Governance Code (Code)

Throughout 2017, the Company has applied the main principles and provisions of the Code with the exception of A.3.1 as Michael Dobson was not independent on appointment as Chairman in April 2016. This was fully explained in the 2015 Annual Report and Accounts. There has been an absolute majority of independent Directors on the Board throughout 2017.

Copies of the Code can be obtained from the FRC's website at frc.org.uk.

The Board and its Committees

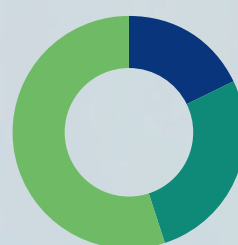
The Board has collective responsibility for the management, direction and performance of the Company. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. In discharging its responsibilities, the Board takes appropriate account of the interests of our wider stakeholders including clients, employees, regulators and society as a whole. Certain decisions can only be taken by the Board, including deciding on the Group's overall strategy, significant new business activities and the strategy for management of the Group's investment capital. These are contained in the Schedule of Matters Reserved to the Board, which can be found on the Company's Investor Relations website.

The Board has delegated specific responsibilities to Board committees, notably the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. The minutes of Committee meetings are made available to all Directors. At each Board meeting, the Chairman of each Committee provides the Board with an update of the work currently being carried out by the Committee they chair. Membership of the Committees is detailed in each Committee report. The Committees' terms of reference can be found on the Company's Investor Relations website.

There is also a Chairman's Committee whose membership is comprised of the non-executive Directors. The Chairman's Committee is not a Committee of the Board and serves as an informal forum for the discussion of such matters as the Chairman considers appropriate. During the year, the Chairman's Committee considered Board evaluation, the performance of the Group Chief Executive, acquisition opportunities and succession.

Board composition at 31 December 2017

Board composition



Executive Directors	18%
Non-independent non-executive Directors	27%
Independent non-executive Directors	55%

Length of tenure*



0 - 3 years	37%
3 - 6 years	18%
6 - 9 years	27%
9+ years	18%

*Since date of first election by the shareholders

The Board believes that it operates most effectively with an appropriate balance of executive Directors, independent non-executive Directors and Directors who have a connection with the Company's principal shareholder group. No individual or group of individuals is in a position to dominate the Board's decision making.

The Nominations Committee report contains more detail on our approach to Board Composition. Biographies of each of the Directors are set out on pages 44 and 45.

Independence

The Board has an absolute majority of independent Directors. All the non-executive Directors are independent in terms of character and judgement. Michael Dobson, as former Chief Executive, is not considered independent under the Code. Philip Mallinckrodt is not considered independent as he is a former executive Director and is a member of the principal shareholder group. Bruno Schroder is not considered independent as he is a member of the principal shareholder group and because he has served on the Board for more than nine years.

The Nominations Committee believes that their judgement and experience continues to add value to the Board and the Group. The Board will therefore recommend their re-election at the 2018 AGM.

Director appointments and time commitment

The rules providing for the appointment, election, re-election and the removal of Directors are contained in the Company's Articles of Association and remain unchanged from the previous year.

In accordance with the Articles of Association, Sir Damon Buffini will resign and offer himself for election at the AGM on 26 April 2018. All other Directors are required to seek re-election on an annual basis unless they are retiring from the Board. Details of the Directors' length of tenure are set out on page 49.

Non-executive Directors' letters of appointment stipulate that they are expected to commit sufficient time to discharge their duties. The Board has adopted a policy that allows executive Directors to take up one external non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional appointments. The Board is satisfied that all Directors continue to be effective and demonstrate commitment to their respective roles.

For details of executive Directors' service contracts, termination arrangements and non-executive Directors' letters of appointment, please refer to page 74.

Governance framework

Board

The Board is responsible for the management, direction and performance of the Company.

Chairman

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. He is responsible for creating an environment for open, robust and effective debate. The Chairman is also responsible for ensuring effective communication with shareholders and other stakeholders.

Group Chief Executive

The Group Chief Executive is responsible for the executive management of the Company and its subsidiaries. He is responsible for proposing the strategy for the Group and for its execution. He is assisted by members of the GMC in the delivery of his and the Board's objectives for the business.

Senior Independent Director (SID)

The SID's role is to act as a sounding board for the Chairman, oversee the evaluation of the Chairman's performance and serve as an intermediary for the other Directors if necessary. He is also available as an additional point of contact for shareholders and other stakeholders should they wish to raise matters with him rather than the Chairman or Group Chief Executive.

Non-executive Directors

Non-executive Directors are expected to provide independent oversight and constructive challenge to the executive Directors on issues of strategy, performance and resources including key appointments and standards of conduct.

Nominations Committee

Responsible for reviewing and recommending changes to the composition of the Board and its Committees.

Chairman: Michael Dobson

 See page 54 for the Committee Report.

Audit and Risk Committee

Responsible for overseeing financial reporting, risk management and internal controls and external audit.

Chairman: Rhian Davies

 See page 56 for the Committee Report.

Remuneration Committee

Responsible for the remuneration strategy for the Group and the remuneration policy for Directors.

Chairman: Lord Howard

 See page 62 for the Committee Report.

Group Management Committee

The GMC comprises the senior management team and is the principal advisory committee to the Group Chief Executive.

Group Capital Committee

Assists the Chief Financial Officer in the deployment of operating, seed, co-investment and investment capital.

Group Risk Committee

Assists the Chief Financial Officer in discharging his responsibilities in respect of risk and controls.

Key areas of focus during the year

At each scheduled Board meeting the Board discusses reports from the Group Chief Executive on the performance of the business, the Chief Financial Officer on financial performance, the Company Secretary on governance developments, and, where relevant, a report from each of the Board Committees. In addition to these regular matters, specific areas of focus by the Board during 2017 included:

Meeting dates	Key areas considered
February	<ul style="list-style-type: none"> - An update on our overall strategy - The strategy for our Asia Pacific business - Private Assets strategy - Annual Report and Accounts and dividend proposal - Brand update
March	<ul style="list-style-type: none"> - The acquisition of Adveq
May	<ul style="list-style-type: none"> - The strategy for evolving our core asset management business - Wealth Management growth strategy - Strategic risks - Capital strategy - Product strategy - Brexit - ICAAP and ILAAP
July	<ul style="list-style-type: none"> - Fixed Income strategy - Capital strategy - Continental Europe strategy - Remuneration strategy - Half-year results and dividend proposal - Brexit - ICAAP
September	<ul style="list-style-type: none"> - People strategy - Multi-asset growth strategy - Group Recovery Plan and Resolution Pack - Regulation - Potential acquisitions
November	<ul style="list-style-type: none"> - Overall North America strategy for Asset Management, Investment, Distribution and Product Divisions - Latin America business review - 2018 budget

Throughout the year, the Board continued to focus on the development of our overall strategy for the Group and the key individual drivers of growth over the next five years. As part of this, the Board had a two day strategy meeting in May. Particular focus was given to our competitive environment, the evolution of our core business, our capital strategy and an assessment of our strategic risks.

The November Board meeting was held over two days in our New York office. North America is a key region for strategic growth and this visit gave the Board the opportunity to meet the senior management team and the wider workforce in New York, gain a deeper understanding of our operations in North America and experience the culture in the business there.

Priorities for 2018

The Board has agreed a set of high level objectives for 2018 based on our core responsibility of delivering strong, sustainable financial performance. These include:

- Ongoing development of the strategy to enable the continued growth of the firm;
- Developing our talent to help grow the business;
- Assessing risks to our business and our business model and how we address them;
- Getting the right engagement with our key stakeholders to inform the Board in developing our strategy; and
- Continuing to focus on Board composition to support the growth of the business.

Directors duties – compliance with s172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires directors to promote the success of the company for the benefit of the members as a whole and in doing so have regard to the interests of stakeholders.

On page 53, we have set out who we regard as our key stakeholders, how we have engaged with them during the year.

Board induction and training

The Company Secretary supports the Chairman and Group Chief Executive in providing a personalised induction programme to all new Directors. This helps to familiarise them with their duties and the Group's culture and values, strategy, business model, businesses, operations, risks and governance arrangements.

Details of Ian King's and Rakhi Goss-Custard's inductions on joining the Board are explained on page 54 of the 2016 Annual Report and Accounts. Sir Damon Buffini is currently undertaking a similar induction programme. Ian King joined the Remuneration Committee in July 2017. A tailored induction was provided that focused on relevant technical matters including Schroders' remuneration policies and plans; remuneration regulation and governance for asset management firms and financial services more broadly; remuneration regulations and governance for UK-listed companies; and remuneration disclosure requirements.

The Board believes that the ongoing development and briefing of Directors is an important aspect of the Board's agenda. Briefing sessions are arranged each year which, during 2017, included presentations on investment research, management information systems, the US market and our capabilities in North America. Members of the Board Committees also receive regular updates on technical developments at scheduled Committee meetings.

2016 Board evaluation (internal)

The 2016 Board evaluation identified a number of recommendations to maintain and improve the Board's effectiveness:

Recommendations	Actions taken/progress
Continue the focus on strategic issues	<ul style="list-style-type: none"> – Two day strategy meeting in May 2017. – Regular Board deep dives into different parts of the Group's strategy.
More opportunities for 'first line' attendees at Board and Committee meetings	<ul style="list-style-type: none"> – Senior Management frequently attend the Board and Audit and Risk Committee meetings to present on agenda items and to expose more senior managers to the Board in support of succession planning.
Continued emphasis on Board and executive succession planning	<ul style="list-style-type: none"> – Non-executive Director discussion on executive succession planning carried out. – The Nominations Committee continues to consider succession planning for the executive and non-executive Directors.

2017 Board evaluation

The Chairman proposed and the Board agreed that the 2017 evaluation should be externally facilitated, one year earlier than required under the Code. Independent Board Evaluation were selected to facilitate the evaluation. They have no other connection with the Company.

Representatives of Independent Board Evaluation attended meetings of the Board and principal Committees and also interviewed each of the Board members, the Company Secretary and members of the senior management team who had attended Board meetings during the year. The evaluation focused on strategy and succession planning, these being two areas identified for improvement in the 2016 evaluation. Independent Board Evaluation provided detailed reports on the Board, its principal Committees, the Chairman and each individual Director. The Chairman discussed the individual reports with each Director. Independent Board Evaluation met with the Committee Chairmen to discuss the Committee evaluations. The main Board report was presented to and discussed by the whole Board. The overall conclusion of the evaluation was that the Board is on a positive track and performing increasingly well. It set out a number of recommendations including:

- Setting high level Board objectives for the year;
- Having more informal time outside of Board meetings to strengthen Board relationships;
- Developing the induction process further to help new Directors, in particular those from outside the financial services sector;
- Having Board update calls between Board meetings;
- Standardising Board papers further; and
- Reviewing recent acquisitions more systematically.

The Board agreed with these recommendations and has agreed a plan to address them.

Company Secretary

All Directors have access to the advice and services of the Company Secretary and can arrange through him to receive professional advice independently of the Company, at the Company's expense.

Shareholder engagement

We operate a complete investor relations programme. During 2017, the Group Chief Executive and Chief Financial Officer participated in a number of roadshows in the UK and the US, meeting with our shareholders to discuss the Group's growth strategy. The Group was also represented at several investor conferences. Feedback from these meetings and conferences is provided to the Board to ensure that the Directors develop an understanding of the views of our major shareholders.

We also held a capital markets day in October. This allowed the investment community the opportunity to gain a deeper understanding of our strategy around the drivers of future growth, as well as access to senior management who are responsible for delivering this. There were regional presentations on our business in continental Europe, Asia Pacific and North America, followed by details of our product strategy and of the work of the Data Insights team.

In addition to the capital markets day, the primary means of communicating with the Company's shareholders are through the AGM, the Annual Report and Accounts and the annual and interim results presentations. All of these are available on the Company's website and the Annual Report and Accounts is posted to all shareholders who elect to receive it. Our Group website also contains information on the business of the Company, Corporate Governance, all regulatory announcements, key dates in the financial calendar and other important shareholder information.

The AGM is an opportunity to meet with shareholders, hear their views and to answer their questions about the Group and its business. All resolutions are voted on by way of a poll. This allows the Company to count all votes rather than just those of shareholders attending the meeting. All resolutions are voted on separately and the final voting results are published as soon as practicable after the meeting. Together with the rest of the Board, the Chairmen of the Audit and Risk, Remuneration and Nominations Committees will be present to answer questions. The 2018 AGM is to be held on Thursday 26 April 2018 at 11.30 a.m.

Stakeholder interests

Stakeholders	Why they are important to us	How we have engaged
Clients  See page 18.	<p>Clients are the centre of our business. Our ongoing success is built upon our ability to understand their needs.</p> <p>We look to build and maintain close relationships with our clients so that we can better understand their financial needs and recommend the solutions to build their future prosperity.</p>	<ul style="list-style-type: none"> - In Asset Management, our Distribution teams consist of over 500 people who are focused on forming principled partnerships with our clients. We recognise the responsibility entrusted to us by our clients. - In Wealth Management, our dedicated portfolio managers and wealth planning advisers, allow us to develop close relationships and ensure that the investment solutions we provide are well placed to meet our clients' financial goals.
Shareholders  See page 20.	<p>We rely on the support and engagement of our shareholders in order to deliver our strategic objectives and grow the business.</p>	<ul style="list-style-type: none"> - Our shareholding structure supports the long-term approach we take in the management of our business and enables the Board and management not to be overly influenced by short-term considerations. - We held a capital markets day in October 2017 to allow the investment community the opportunity to better understand our strategy and speak to senior management.
People  See page 28.	<p>Our people are central to the ongoing success of our business.</p> <p>Schroders is highly diverse in terms of the nationalities employed in our local offices globally. This is a key strength that provides us with local market knowledge and a deep understanding of our clients' needs.</p>	<ul style="list-style-type: none"> - In January 2017, we completed a firm-wide Employee Opinion Survey. - We communicate regularly through management briefings, videos, an internal magazine and a social intranet. - Annual 'Inside Schroders Live' meetings are held with the Group Chief Executive to discuss the progress made by the Group and future challenges and objectives. - Launch of our firm-wide employee recognition scheme.
Regulators  	<p>Regulators have a legitimate interest in how we treat our clients and run our business. We believe that our clients' interests are best served when we work constructively with our regulators.</p> <p>We believe that we have the responsibility to demonstrate that we provide value for money for our clients and act with integrity as good stewards of capital.</p>	<ul style="list-style-type: none"> - As a global business, we nurture positive relationships through our local compliance teams with our regulators across the world. - Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams. - The Board receives regular updates on proposed changes to financial services regulations that are likely to impact us and our clients.
Society  See page 30.	<p>We take our societal responsibilities seriously and we are proud to support the communities in which we operate.</p> <p>We recognise that there are high standards for the management of our impact and giving back to the wider community.</p> <p>Integrating ESG considerations into our investment decisions allows us to deliver long-term sustainable returns and contribute to solving environmental and societal challenges.</p>	<ul style="list-style-type: none"> - We have a global CR champion network to help us mobilise our people, gain local knowledge and give us greater global management of our CR initiatives. - We encourage our people to volunteer with charitable organisations, sharing their skills and insights. They receive up to 15 hours' paid volunteering leave each year and 'time matching' for volunteering outside work hours. - We have set targets to purchase electricity from renewable sources. We have exceeded our initial goal of 60% and are on track to reach 75% by the end of 2020. We have also set a target to purchase 100% renewable energy by 2025.
Suppliers 	<p>Like many global businesses, we use external service partners to supplement our own infrastructure to deliver our clients' needs.</p> <p>This allows access to lower costs of service delivery and the ability to benefit from the expertise our partners are able to provide, enabling us to focus on the services we are best equipped to provide. The Group retains responsibility for the performance of our third party providers.</p>	<ul style="list-style-type: none"> - We have a procurement policy which governs the selection of major suppliers. - We have a supplier relationship management policy. Under this policy we segment our suppliers on a risk based approach which sets the required control, reporting and governance of our supplier base. Key suppliers have supplier owners who are responsible for a set of governance requirements appropriate to the risk level identified. - The Audit and Risk Committee reviews our material outsourced providers annually.

Ensuring diversity in skills, expertise and knowledge



Committee membership (meeting attendance is on page 49)

Michael Dobson (Chairman)	Rhian Davies	Ian King	Nichola Pease
Robin Buchanan	Rakhi Goss-Custard	Philip Mallinckrodt	Bruno Schroder
Sir Damon Buffini	Philip Howard		

I am pleased to present the Nominations Committee report for 2017.

Responsibilities of the Nominations Committee

The Committee is responsible for keeping under review the composition of the Board and its Committees and for ensuring appropriate executive and non-executive Director succession plans are in place.

The Committee's terms of reference are available on the Company's Investor Relations website.

Activities of the Nomination Committee

As we indicated in last year's report, our focus in 2017 was to identify potential candidates to succeed Philip Howard in 2018.

Along with the Group Company Secretary, I met with each member of the Committee and the Group Chief Executive to discuss the required skills and experience for potential non-executive candidates. High on our list of priorities was experience in financial markets.

At our meeting in July we agreed the role profile and appointed MWM Consulting to conduct the search for potential candidates. MWM Consulting is a signatory to the Voluntary Code of Conduct on Gender Diversity and is independent of Schroders.

After discussing an initial long list of candidates I interviewed five candidates, four of whom went on to meet the Nominations Committee and the Group Chief Executive. In January 2018 we announced the appointment of Sir Damon Buffini. We look forward to benefiting from his broad and highly successful experience in the field of private equity in relation to our overall range of strategic opportunities, and particularly in the area of private assets which is one of our growth priorities.

In addition to Board succession, the Nominations Committee also considered the composition of the principal Board Committees, particularly in the context of Philip Howard's impending retirement. In July 2017 Ian King joined the Remuneration Committee. It was agreed by the Nominations Committee in February 2018 that Nichola Pease would succeed Philip Howard as Chairman of the Remuneration Committee. Her long experience in the asset management industry and her membership of this Committee since 2014 means she is well placed to take over from Philip in this important role.

Following Philip Howard's retirement there will be three independent non-executive Directors on the Audit and Risk Committee but we have concluded that we do not need to make an additional appointment to this Committee at present.

In February 2018 the Committee considered the role of Senior Independent Director and proposed that Ian King succeed Philip as Senior Independent Director.

The Committee has confirmed that the non-executive Directors standing for re-election at this year's AGM continue to perform effectively, both individually and collectively as a Board, and that each one demonstrates the required commitment to their roles.

As Robin Buchanan, Philip Mallinckrodt and Bruno Schroder have served on the Board for more than six years, the proposal for their re-election was given particular consideration. The Committee agreed that these Directors continue to provide a valuable contribution to the Board's deliberations and recommends their re-election. As required by the UK Listing Rules, the appointment of independent Directors must be approved by a simple majority of all shareholders and by a simple majority of the independent shareholders. Further details are set out in the 2018 Notice of AGM.

Diversity

Diversity for us goes beyond gender or ethnic background. We look for diversity of skills and experience which is vital for an effective Board and management team and this will continue to be the primary criterion by which we select candidates for the Board.

Nevertheless, the Board understands the importance of increasing gender and diversity. Whilst we currently have three female Directors representing 27 per cent of the Board, we aim to have a minimum of 33 per cent of Board positions held by women by 2020. We also endeavour only to use the services of executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity. The full Board diversity policy is on page 28 and also our website.

Evaluating the performance of the Committee

As part of the Board evaluation process in 2017 we used an external firm, Independent Board Evaluation. Their assessment was that the Nominations Committee was working efficiently and effectively. The evaluation process is set out in detail on page 52.

Priorities for 2018

During 2018 we will consider Board composition and succession planning for senior management and non-executive Directors. In particular, we will conduct a search for a successor to Robin Buchanan, who is scheduled to retire as a Director in 2019.

Michael Dobson

Chairman of the Nominations Committee

28 February 2018

Adapting, growing and evolving in the face of challenges



Committee membership (meeting attendance is on page 49)

Rhian Davies (Chairman)

Philip Howard

Robin Buchanan

Nichola Pease

I am pleased to present the Committee's report for the year ended 31 December 2017. The Committee plays a key role in overseeing the integrity of the Company's financial statements and robustness of the Group's systems of internal control and financial and risk management systems.

An important part of our role is to provide non-executive oversight to ensure management has an appropriate focus on high quality reporting. In 2017, the Group received a letter from the FRC, requesting information regarding investment performance metrics presented by asset management companies in their annual reports. We were able to confirm that we had already considered improving our disclosures and these changes had been adopted in the interim results announcement in July 2017.

In October, we were pleased to receive a further letter from the FRC that welcomed the changes that had been made to our disclosures and the explanations that had been provided in responding to the FRC's inquiry. The FRC also acknowledged the limitations of their review compared with a more detailed investigation, but concluded that the matter was closed and did not warrant further inspection. The actions taken in 2017 reflect the importance placed by the Group on enhancing the disclosures where that is considered to be appropriate. The Committee has an important oversight role to ensure the Group's focus on high quality corporate reporting continues.

As described in last year's Annual Report and Accounts, the Committee conducted an audit tender process and recommended to the Board the appointment of Ernst & Young LLP (EY) as the Group's new external auditor for the year ending 31 December 2018, replacing PricewaterhouseCoopers LLP (PwC). A resolution will be proposed at the 2018 AGM for shareholders to approve the appointment of EY.

Throughout 2017 we have received regular reports on the work performed to prepare for the transition of the external audit to EY. The Committee recognises the importance of the external auditor in providing assurance over the integrity of the financial statements and

that a change of auditor can bring new challenge but also a heightened risk to audit quality.

Over the past year the Committee and EY have been focused on ensuring that preparatory work is undertaken to ensure there is a smooth transition and that a high level of audit quality is retained in their first year, as EY take a fresh look at our controls, estimates and judgements.

During 2017, both EY and management have invested significant time preparing for the more detailed planning activities that will be undertaken once EY are appointed. Given the Committee's responsibilities relating to financial reporting, risks and controls, the external auditor is a valuable partner for us and we look forward to the insights that EY will bring.

As we transition to EY, I would like to place on record our thanks to PwC for their work as external auditors since their appointment in 1959. They have brought independent and objective thought and demonstrated professional scepticism in challenging our accounts production including our estimates and judgements. We are grateful for their contribution for ensuring the integrity of our financial statements.

I am grateful to all members of the Committee for their support in 2017 and I look forward to continuing our work in 2018.

Rhian Davies
Chairman of the Audit and Risk Committee

28 February 2018

Responsibilities of the Committee

The principal role of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to financial reporting, financial controls and audit, risk and internal controls.

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 44 and 45. The Board has determined that, by virtue of their previous experience gained in other organisations, members collectively have the competence relevant to the sector in which the Group operates. In addition, the Board considers that Rhian Davies, a chartered accountant, has the recent and relevant financial experience required to chair the Committee.

At the invitation of the Chairman of the Committee, the Chairman, Group Chief Executive, Chief Financial Officer and Bruno Schroder attended most meetings. Other regular attendees who advised the Committee were the Group Financial Controller, the heads of Compliance, Risk and Internal Audit and the General Counsel. Other members of senior management were also invited to attend as appropriate. The Chairman of the Committee also met with the Chairman of the Wealth Management Audit and Risk Committee who is an independent non-executive Director of Schroder & Co. Limited and provides a report to each Committee meeting on matters related to the Wealth Management business.

Representatives from PwC, attended all of the Committee's scheduled meetings. During 2017, two private meetings were held with PwC without management present.

Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for any matters to be raised confidentially.

The Committee's primary activities are the oversight of:

Financial reporting, financial controls and audit

- The content and integrity of financial and Pillar 3 reporting
- The appropriateness of accounting estimates and judgements
- The effectiveness of the financial control framework
- The effectiveness of the external auditor
- Independence of the external auditor
- Recommending to the Board the appointment of the external auditor

Risk and internal controls

- The Group's risk and control framework, including the Group's whistleblowing procedures and the Money Laundering Reporting Officer's reports
- The Group's ICAAP, ILAAP, risk appetite and recovery and resolution planning
- The Group's regulatory processes and procedures and its relationships with regulators
- The Group's Internal Audit function
- Emerging and thematic risks which may have a material impact on the Group's operations in the future

Key areas of focus during the year

The table below summarises the key issues that the Committee considered at each of its meetings during 2017.

Meeting	Financial reporting, financial controls and audit	Risk and internal controls
February	<ul style="list-style-type: none"> - Annual Report and Accounts including financial estimates and judgements - Viability statement - Pillar 3 disclosures 	<ul style="list-style-type: none"> - Key risks and risk management - Internal audit control framework review - Risk and control framework review
May	<ul style="list-style-type: none"> - External audit plan - External auditor transition update - Financial controls in respect of net operating revenue 	<ul style="list-style-type: none"> - ICAAP and ILAAP - Money Laundering Reporting Officer's annual report - Business continuity - Oversight of outsource providers - Client life cycle
July	<ul style="list-style-type: none"> - Half-year results including financial estimates and judgements - External auditor transition update 	<ul style="list-style-type: none"> - Key risks - Risk and control assessments - Fiduciary management - MiFID II
September	<ul style="list-style-type: none"> - External auditor effectiveness review - Tax strategy - Internal Audit - External quality assessment 	<ul style="list-style-type: none"> - Conduct and people and employment practices risk - General Data Protection Regulation - Group recovery plan and resolution pack - MiFID II
November	<ul style="list-style-type: none"> - Financial controls - Accounting policies and judgements including future accounting developments - EY audit strategy for 2018 and initial observations - Policies for safeguarding the independence of the external auditor 	<ul style="list-style-type: none"> - Information security and technology risk - Wealth Management Switzerland - Key risks - Insurance - 2018 Internal Audit and Compliance monitoring plans - MiFID II - Conduct risk

Financial reporting, financial controls and audit

The Committee is responsible for reviewing the half-year and annual results and the Annual Report and Accounts before recommending them to the Board for approval. The Committee reviews whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements including those in respect of the valuation of assets and liabilities, the determination of defined benefit pension obligations, tax and other provisions and the determination of entities that are consolidated into the Group where these are subject to judgement.

The Group's financial control environment is set out in reports reviewed by the Committee. The documents provide a comprehensive summary of the controls that exist across the Finance function globally and support the Group's risk and control assessments. For more details see page 34.

During the year, the Committee received reports from Finance on the operation of the controls over the financial reporting process including control enhancements, particularly in respect of revenue, cost of sales and accounting for deferred compensation. In 2017, Finance and the Committee also focused on the integration and oversight of recently acquired businesses including Benchmark Capital and Schroder Adveq.

The Committee reviewed the report from Finance which set out the judgements made in respect of the adoption of new accounting standards that are applicable for the Group from the 2018 and 2019 year ends, along with the Group's preparations for these changes.

The Committee receives regular reports from PwC on the audit scope, progress against the audit plan, their independent assessment of management's conclusions on key areas of estimates and judgement and any findings from other audit procedures. The Committee also reviews PwC's audit opinion on the Annual Report and Accounts and on their independent report on the half-year results.

The Committee reviews the Group's tax strategy annually and it is discussed with the external auditors. For more details see page 33.

The Committee is required to report to shareholders on the process it follows in its review of significant estimates and judgemental issues that it has considered during the year. These issues are set out on the next page.

The Committee considers the Group's financial projections and the application of stress scenarios in order that the Board can make the viability statement, as set out on page 36, and to support the going concern basis of preparation of the financial statements.

A key focus of the Committee is its work in assisting the Board in ensuring that the Annual Report and Accounts when taken as a whole is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee considered the key messages being communicated in the Annual Report and Accounts, as well as the information provided to the Committee and the Board as a whole during the year and their discussions on these. The Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2017 Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Non-audit services

The Committee maintains a policy on the engagement of the auditor for the provision of non-audit services in order to safeguard their independence and objectivity. This prohibits the provision of certain non-permitted audit services and contains rules regarding the approval of permitted non-audit services. As the Group's incoming auditor, EY have been subject to the policy since 1 January 2017 to

ensure that there are no engagements that would restrict their appointment.

In recognition of the change of auditor, the Committee considered and approved new policies that addressed the restrictions on PwC, as the outgoing auditor, over the remaining transition period, along with longer-term restrictions due to their role as auditor of funds managed by Group companies.

Details of the total fees paid to PwC are set out in note 5 to the accounts. Non-audit fees, excluding audit related assurance services required under regulation, were equivalent to 51% (2016: 37%) of audit fees. Non-audit fees payable to EY, as the Group's incoming auditor, during 2017 were equivalent to 20% of audit fees payable to PwC.

Non-audit services, excluding audit related assurance services required under regulation, payable to PwC principally comprise controls reports issued under International Standard on Assurance Engagements 3402, or similar principles, which are normally conducted by the Group's auditor but are not required by regulation. In 2017, PwC also undertook specific work relating to the Group's investigation of robotics and cognitive science and the deployment of industry practices to develop operational efficiencies. PwC were appointed to these roles as they were successful in competitive tender processes and after a full assessment of whether the provision of these services was in compliance with independence principles.

In July the Group acquired Adveq Holding AG (Adveq). Prior to the Group's acquisition PwC were not auditors to Adveq but provided a range of non-audit services, some of which are not permitted under the Schroders Group policy on non-audit services provided by the Group's external auditor. Where these services were not permitted, the services were terminated within three months of acquisition date, as allowed under the UK Ethical Standard that governs auditor independence. These services comprised accounting and book keeping, payroll services, tax compliance, regulatory advice and employee tax services.

Non-audit services payable to EY in 2017 principally comprised ongoing services relating to Global Investment Performance Standards verification work, and business acquisitions, as well as certain tax and other services that are not permitted under the Group's policy but which were completed prior to EY confirming their independence. These non-permitted services were identified during the audit tender process and have been completed in line with EY's independence transition plan outlined during that process.

The Committee was satisfied that the quantity and type of non-audit work undertaken throughout the year did not impair either PwC's independence or EY's ability to be appointed as the Group's external auditor at the 2018 AGM. This assessment was made based on the nature and importance of the services provided with regards to the Group's financial statements and the conclusion that whilst certain services were only permitted due to the UK Ethical Standard's transitional arrangements for business acquisitions, appropriate procedures were in place to mitigate the risk to PwC's independence.

Oversight of the relationship with the external auditor

The Committee places great importance on the quality, effectiveness and independence of the external audit process.

The Committee is responsible for evaluating the performance of the external auditor. To assist the Committee in fulfilling these responsibilities, an assessment of the external auditor was carried out with feedback collected from key stakeholders by way of a questionnaire. The content of the questionnaire was prepared in accordance with the FRC's guidance and comprises four criteria: mindset and culture; skills, character and knowledge; quality control; and judgement. The overall quality of the 2016 audit was assessed as good and no areas of significant concern were identified. Areas for improvement in respect of 2017 were communicated to PwC.

Significant estimates and judgements

Accounting for the fair value of assets and liabilities in respect of business combinations


During the year the Group made a number of acquisitions. These acquisitions required estimates to be made in respect of the fair value of assets and liabilities acquired and parts of the purchase consideration. The main area of judgement was in relation to the determination of the fair value of rights to carried interest income from private equity vehicles. This included values attributable to third parties through the sale and purchase agreement and third party interests relating to the value of entities that own the carried interest rights.

 See note 29 to the accounts.

Carrying value of assets and liabilities

The Group holds material balances in respect of previously completed acquisitions, the UK DB pension scheme surplus and certain actual or potential liabilities which are subject to estimation regarding their carrying value particularly with respect to mortality rates.

The calculation of the Group's tax charge each year necessarily involves a degree of estimation, given the many jurisdictions in which it has operations and the complexity of the applicable rules in each of those jurisdictions.

 See notes 6, 10, 13, 17, 18 and 25 to the accounts.

Presentation of profits

Since 2013 the consolidated income statement separately presents exceptional items which is permitted by accounting rules for specific items of income or expense that are considered material. This presentation represents a judgement by the Group that the items presented warrant specific disclosure in accordance with accounting standards.

 See note 1(b) to the accounts.

Action

The Committee considered reports from Finance that set out the key assumptions used to determine the fair value of assets and liabilities acquired, the purchase price consideration and the amounts attributable to acquired intangible assets, goodwill and third party interests. The Committee considered the work performed by Finance and a valuation specialist in establishing the key assumptions, including the market growth assumptions, the profit before tax and the discount rate. Having considered the supporting information, the Committee was satisfied with the initial carrying value of the relevant assets and liabilities and the basis for reassessing the carrying value of assets and liabilities at each reporting date.

The Committee considered reports that set out relevant considerations in assessing estimates used in the determination of the fair value of certain assets and liabilities.

Acquisition related items comprising goodwill and intangible assets were assessed against the performance and outlook of the relevant cash generating units and the application of growth assumptions and discount rates.

Finance Reports included key financial assumptions that had been used by the independent qualified actuaries, Aon Hewitt Limited, to determine the UK DB pension scheme surplus.

The Group Head of Tax presented an update on the Group's tax strategy and associated governance processes to the Committee in September. The Committee reviewed and approved the Group's updated tax strategy, which is published on the Group's website, along with the announcement of the tax position at each reporting date.

The basis for determining the carrying value of certain assets and liabilities, including those in relation to carried interest rights as referred to above, was also considered in the Finance reports. Having considered the supporting information, the Committee was satisfied with management's conclusions regarding the carrying values of the relevant assets and liabilities and that appropriate disclosures have been included in the accounts.

The Committee considered and was satisfied with the continued presentation of exceptional items within a separate column in the consolidated income statement. This presentation is considered appropriate as it provides a transparent view of certain items and the underlying performance of the business. For 2017, exceptional items principally comprised amortisation of acquired intangible assets and costs associated with acquisitions and disposals.

Audit and Risk Committee report continued

Audit effectiveness is also assessed throughout the year using a number of measures including: reviewing the quality and scope of the proposed audit plan and progress against the plan; responsiveness to changes in our businesses; and monitoring the independence and transparency of the audit.

Following the audit tender process conducted by the Committee in 2016, EY will be recommended by the Board for appointment as the Group's external auditor for the 2018 financial year at the 2018 AGM.

The Committee confirms that the Company has complied with the provisions of the Competition and Markets Authority Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

Risk and internal controls

The Board has overall responsibility for the Company's system of internal controls, the ongoing monitoring of risk and internal control systems and for reporting on any significant failings or weaknesses.

The system of control is designed to manage rather than eliminate the risk of failure to achieve our strategic objectives and can only provide reasonable assurance against material misstatement or loss. The Board has delegated to the Committee responsibility for reviewing the effectiveness and monitoring of the risk and internal controls framework.

On behalf of the Board, the Committee carried out the annual assessment of the effectiveness of internal controls during 2017, including those related to the financial reporting process. The Committee also considered the adequacy of the Group's risk management arrangements in the context of the Group's business and strategy. In carrying out its assessment, the Committee considered reports from the Group Financial Controller and the heads of Compliance, Risk and Internal Audit and also from PwC. This enabled an evaluation of the effectiveness of the Group's internal control framework.

Risk

Risk reports set out changes in the level or nature of the risks faced by the Group, developments in risk management and operational events, including significant errors and omissions. Separate reports allowed the Committee to consider a range of factors when determining the key risks and uncertainties faced by the Group. These included assessments of risk tolerance and stress testing of the Group's capital position, as well as the production of the Group's ICAAP, ILAAP and the Group's Recovery Plan and Resolution Pack.

The Committee also considers emerging and thematic risks that may have a material impact on the Group. During the year, the Committee reviewed the Group's arrangements in the areas of business continuity, information security, outsourced providers, client life cycle, MiFID II, conduct risk and fiduciary management. Set out on this and the following page are summaries of the Committee's activity in four areas where members of the first line of defence attended and presented to the Committee in relation to emerging and thematic risks.

MiFID II

In preparation for the implementation of MiFID II in January 2018, updates were provided to the Committee to monitor progress and discuss any issues. MiFID II has a very broad scope, touching many aspects of the business including requirements for investor protection, organisation and governance, market trading transparency and market infrastructure.

At the July Committee meeting, updates were provided by the Chief Technology Officer, the Chief Operating Officer for Distribution and the Chief Operating Officer for Portfolio Services on how their areas of the business were working towards being compliant before the deadline. The thematic risks relevant to the project, particularly those connected to third party dependencies, were discussed. Technology projects with a long lead time, such as elements of the front office technology platform, were realigned and configured in order to be MiFID II compliant. The Committee noted that although this added pressure to the technology change programme, resource was available and the organisation was working collaboratively, demonstrating a high level of engagement from all areas of the business.

Subsequent programme updates were provided at the September and November Committee meetings. The Committee was confident that the Group was doing all that it could to be compliant by the deadline and that any outstanding challenges were common across the industry primarily due to market-wide issues and dependencies which would evolve and be completed during 2018.

The Committee will continue to monitor progress of the implementation and embedding of MiFID II requirements in 2018.

Information Security

The Committee recognises the importance of Information Security to the Group particularly in the light of high profile cyber attacks which have increased in recent years. There has also been greater interest from regulators around the world regarding technology. An external review of Schroders' Information Security controls was undertaken by PA Consulting which benchmarked the maturity of the Group's Information Security framework against other financial services organisations. This showed that there had been further strengthening since the last review conducted by KPMG in 2015 and that Schroders is in the top quartile of financial services firms surveyed.

Given the pace of technology change, the Committee recognises that continuous improvement is required to meet the challenges of the consistently evolving environment. The Committee will continue to review and assess the Group's capabilities in this area.

Compliance

Compliance reports describe the status of our relationships and dealings with our principal regulators and material changes in the regulatory environment in which the Group operates. The reports also outline key compliance issues, and the planning and execution of the compliance monitoring programme. Compliance monitoring is carried out globally to assess the Group's compliance with local regulatory standards and requirements.

The Committee considered the FCA's Asset Management Market Study final report including the proposed remedies with respect to governance, costs and charges and the implications this would have on the business.

The Committee received reports on the enhancement work that had been undertaken in relation to FCA client money rule compliance by its outsourced UK fund transfer agency provider and the strengthening of our oversight arrangements. The compliance position in relation to these arrangements remains under close review.

Internal Audit

The Committee has authority to appoint or remove the Group Head of Internal Audit, who reports directly to the Chairman of the Committee. The Chairman of the Committee is accountable for setting the objectives of the Group Head of Internal Audit, appraising his performance against those objectives and for recommending his remuneration to the Remuneration Committee, with advice from the Group Chief Executive.

The Committee also has responsibility for approving the Internal Audit budget and being satisfied that the Internal Audit function has appropriate resources and continues to be effective. The Committee satisfies itself as to the quality, experience and expertise of the function through regular interaction with the Group Head of Internal Audit, both when the Committee meets and also through other meetings outside the formal meeting schedule.

In 2016, the Committee approved the appointment of an independent third party to conduct an effectiveness review of the Internal Audit function. The review assessed the Internal Audit function's conformance with the International Standards for the Professional Practice of Internal Auditing (Standards) and its compliance with the guidance on 'Effective Internal Audit in the Financial Services Sector', as well as identifying any opportunities for improvement. The findings from the review were presented to the September Committee meeting and were positive. Within Schroders, Internal Audit is seen as a valued assurance function throughout the Group, it is appropriately resourced and has generally conformed with the Standards. There were some opportunities for improvement, including enhancements to audit documentation and agreeing the correct level of coverage for future internal audits.

Internal Audit reports to the Committee set out progress against a rolling plan of audits approved by the Committee on an annual basis. These reports include any significant findings from audits performed and their subsequent remediation and recommendations to improve the control environment. During the year the Committee agreed to proposed amendments to the internal audit plan to meet the evolving risks faced by the business. Additional audit work was carried out in Luxembourg and on the Fiduciary Management team.

Both the annual compliance monitoring and Internal Audit plans are developed on a risk weighted basis to provide proportionate reassurance over the Group's controls for the key risks set out on pages 37 to 43.

General Data Protection Regulation (GDPR)

During 2017, the Committee reviewed the Group's preparations for the introduction of GDPR from 25 May 2018. The Corporate General Counsel and the Chief Information Security Officer presented to the Committee in September on progress in preparing for GDPR.

The obligations under GDPR build on those in existing law already applicable to Schroders' EU-based businesses. In some areas the changes introduced require the Group to make adjustments for new concepts, particularly around enhanced individual rights. We have not identified any fundamental changes to our business models that will be required. Areas of focus include business development and marketing, human resources and Wealth Management, enhancing the functionality of relevant technology systems and developing our oversight of material third party arrangements.

Preparations for the implementation of GDPR are continuing and the Committee will be kept up to date with progress during 2018.

Outsource providers

The Group retains responsibility for services provided on its behalf by third parties. During 2017, the Committee conducted its annual review of the Group's material outsource providers. None of our key relationships needed to be changed during 2017. Ongoing improvement programmes were in place to address service quality issues identified in prior years, including with respect to a third-party provider engaged to provide the transfer agency and other services for the Group's UK-domiciled mutual fund ranges.

As in previous years, none of the findings gave the Committee reason to believe that there had been any client detriment.

The Committee will continue to provide oversight of the Group's outsource arrangements as these develop in 2018.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process by Independent Board Evaluation. The findings relating to the Committee were discussed with the Committee Chairman. Overall, the Committee is considered to be performing well, is rigorous and effective in discharging its responsibilities and providing the Board with assurance. In terms of areas for possible improvement, achieving the right level of detail when considering matters was something to focus on.

Priorities for 2018

As well as considering the standing items of business and overseeing the transition of external auditors, the Committee will also focus on the following areas during 2018:

- Cyber security;
- Conduct and culture;
- Oversight of outsourced services;
- GDPR;
- MiFID II; and
- The transition to new technology platforms.

Committee's assessment of internal control and risk management arrangements

In light of its work, the Committee was content with the effectiveness of the Group's processes governing financial and regulatory reporting and controls, its culture, ethical standards and its relationships with regulators. The Committee was also satisfied with the appropriateness and adequacy of the Group's risk management arrangements and supporting risk management systems including; the risk monitoring processes, internal controls framework and the three lines of defence model.

Paying for performance in a simple and transparent way

Structure of the Remuneration report

- Statement by the Chairman of the Remuneration Committee (pages 62 and 63)
- Remuneration at a glance (pages 64 and 65)
- Remuneration governance (pages 66 and 67)
- Remuneration principles (page 68)
- Directors' remuneration policy summary (pages 69 to 75)
- Annual report on remuneration (pages 76 to 90)



Committee membership (meeting attendance is on page 49)

Lord Howard of Penrith (Chairman)	Robin Buchanan
Ian King	Nichola Pease

We pay for performance in a simple and transparent way, clearly aligned to client and shareholder interests. We believe this philosophy is a key driver of the Group's success over the long term. This view is shared by our shareholders, who overwhelmingly voted in favour of our Directors' remuneration policy at our 2017 AGM, recognising the important changes we had made to strengthen the alignment of executive pay to the financial performance of the Group and the interests of clients and shareholders.

During 2017, we saw another year of strong investment performance for our clients, which has again translated into success for our shareholders. 2017 was a record year for our financial performance, with net income, profit and dividends at an all-time high. The Board approved a total compensation ratio of 43% (2016: 44%). On an underlying basis the total compensation ratio is unchanged year on year, as there is a reduction of around one percentage point due to higher levels of bonus deferral for some employees, as described below. This benefit will largely unwind over the next two years. We kept the underlying total compensation ratio below our target range of 45% to 49%, as we remain mindful of ensuring compensation costs are appropriate, given the significant challenges our industry faces over the long term.

Regulatory changes

I highlighted last year that we face continued regulatory uncertainty that could affect our remuneration approach. In 2017 we made changes to our remuneration approach for employees deemed to be material risk takers (MRTs) under the UCITS Directive or AIFMD, increasing bonus deferral levels to create further alignment with clients and shareholders, and to meet the requirements of those Directives.

As UCITS funds and funds subject to AIFMD represent a significant part of the Group, we have included the executive Directors as MRTs under these rules (UCITS / AIF MRTs). Our remuneration philosophy remains unchanged, supporting our long-term approach by deferring a significant part of annual variable remuneration into fund and share awards. This provides clear alignment with the long-term interests of clients and shareholders, alongside awards under the Long Term Incentive Plan (LTIP) and requiring executives to acquire and maintain significant shareholdings in the Group.

We continue to operate the executive Directors' bonuses in line with our shareholder-approved Directors' remuneration policy but to meet our regulatory obligations we made the following changes to how we implement the policy:

Previous approach Performance-year 2017

The proportion of executive Directors' bonuses that was deferred was approximately 50%.	We have increased the proportion of executive Directors' bonuses deferred to approximately 60%, in line with the new Directors' remuneration policy approved by shareholders in April 2017.
The upfront portion of the bonus (i.e. that part that is not deferred) was paid in cash, in February following the end of the financial year.	We pay only half of the upfront portion of the bonus in cash. The other half will be granted as a fund award, at the same time as deferred bonus awards. This upfront fund award cannot be exercised for six months from the date of grant. It is subject to malus terms from the date of grant to the date of exercise and then clawback terms for 12 months from exercise. Unlike the deferred portion of any bonus, the upfront fund award is not normally at risk of forfeiture if the holder leaves the Group.
The deferred portion of the bonus was split equally between fund awards and share awards, both of which were released three years from the date of grant.	We have extended the overall deferral period for deferred fund awards by six months. These awards will be available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from the date of grant. The overall deferral period for share awards will remain three years and these awards will be available to exercise in three equal instalments after 1, 2 and 3 years from the grant date.
The Committee could apply malus terms in the event of individual misconduct or a material misstatement of the Group's results; clawback terms could apply in the event of individual misconduct.	We have adopted a broader description of the circumstances in which malus and clawback terms could be applied, aligned to the UCITS Directive and AIFMD requirements, via a malus and clawback policy. These revised terms apply to all deferred remuneration awards granted from March 2018 and are explained in more detail on page 71.

We grant deferred bonuses and upfront fund awards for UCITS / AIF MRTs, including the executive Directors, under a new deferred remuneration plan, the Deferred Award Plan (DAP). The DAP was designed specifically for this new bonus structure for relevant MRTs. Other employees continue to be granted deferred bonuses under our Equity Compensation Plan (ECP). The operation of deferred bonus awards granted under the DAP is substantially the same as awards that could have been granted under the ECP, other than the differences described on the previous page, and is consistent with the requirements of the Directors' remuneration policy.

2017 performance and pay outcomes

Profit before tax and exceptional items was up 24% to £800.3 million. The Board has recommended a 22% increase in the total dividend per share for the year.

Our approach to determine the annual bonus awards for the executive Directors is consistent with that for the rest of our employees, taking into account a balanced approach to growing the business profitably and sustainably, encouraging the longevity of client relationships, while retaining and developing our talented people who are key to organisational stability and long-term success.

We strongly believe that formulaic pay can often drive the wrong behaviours and the wrong long-term outcomes for clients and shareholders. We look to reward appropriately all employees who adhere to the firm's values – excellence, innovation, teamwork, passion and integrity – and who demonstrate the behaviours we expect in a client-centric culture. Our discretionary approach also ensures we can reflect performance on management of risks and adherence to compliance controls in pay outcomes (page 89).

For 2017, we have awarded Peter Harrison, our Group Chief Executive, a bonus of £6.5 million, reflecting the exceptional strength of the Group's performance this year across both financial and non-financial metrics. Ensuring we deliver for our clients is one of the most important components of this and client investment performance is a key measure of success. We remain significantly ahead of target, with 74% of assets outperforming their stated comparator over three years and 84% over five years. More information on this is set out in the business and financial review on pages 20 to 27. Peter has focused on our strategic priorities (see pages 14 and 15) and delivered a range of important initiatives that will reinforce our future growth potential, particularly around product strategy, regional growth and building on our existing capabilities in Private Assets and Alternatives. Management team stability has been good and Peter's attention to succession planning is building strength and depth for the future.

We have awarded Richard Keers, our Chief Financial Officer, a bonus of £2.75 million, reflecting his significant contribution to the Group's performance during 2017 and delivery against his personal objectives. His leadership of the Global Operations, Risk and Capital Committees and contribution on cost control and efficiency were strong. He drove important revenue reporting enhancements and improvements in management reporting via digital dashboards.

The Group Chief Executive and Chief Financial Officer have seen increases in annual bonus awards of 18% and 12% respectively, compared with a median bonus increase of 14% for employees who worked in the Group for all of 2016 and 2017. The higher year on year increase for Peter Harrison in part reflects his only being Group Chief Executive for part of the prior year, following his appointment to the role on 3 April 2016. More information on the annual bonus awards for the executive Directors is outlined on pages 81 to 83. Philip Mallinckrodt was not eligible for an annual bonus for 2017, after he relinquished his executive responsibilities (see page 85).

The LTIP performance conditions remain highly demanding and, in March 2018, we expect LTIP awards granted in 2014 to vest at 50%, based on net new business. The earnings per share target will again not be met, despite EPS growth of 57% over this period (see page 84). Peter Harrison did not receive an LTIP award in 2014, as awards were granted only to the executive Directors that year and he joined the Board after awards had been granted.

The Group Chief Executive's pay is 35 times the employee mean (2016: 33 times) and 64 times the employee median (2016: 60 times), as shown on page 81. The year on year increase in these ratios reflects a range of factors. In particular, this was Peter Harrison's first full year as Group Chief Executive. In addition, 2017 has seen significant investment to support future growth, and the resulting recruitment was skewed towards employees paid less than the firm-wide average.

Diversity and gender pay gap

We are committed to employee diversity. This year we have continued working to increase the representation of women in senior management roles, having been one of the first signatories of the Women in Finance Charter in the UK. We achieved our initial target of 30% women within senior management during the first quarter of 2017, though at year end the figure had fallen back to 29% as a result of minor restructurings within the firm. We are now targeting 33% by the end of 2019. We have published more information on diversity and gender pay in a separate report on our website, at schroders.com/inclusion.

Our analysis of comparable roles continues to show that we reward men and women fairly for similar work. Our gender pay gap reflects the lower representation of women at senior levels within the organisation. Our work to promote senior management diversity is reflected in an improvement in our gender pay gap, which we have disclosed for the second year (page 78). The gap for median salaries and cash allowances narrowed to 31% (2016: 33%), while the gap for the mean narrowed to 30% (2016: 31%). The gap for the median bonus narrowed to 50% (2016: 59%) and the gap for the mean bonus narrowed to 49% (2016: 66%). As part of the year end compensation review, we consider bonus outcomes through both a gender and ethnicity lens to ensure that recommendations are appropriate and help identify any unconscious bias. There remains more to do and we are actively identifying additional steps to address this.

Lord Howard of Penrith

Chairman of the Remuneration Committee

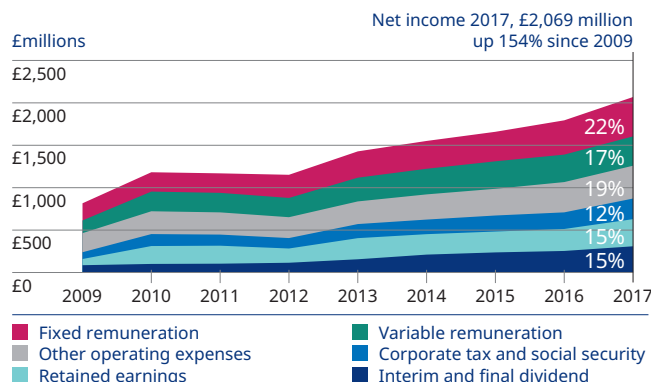
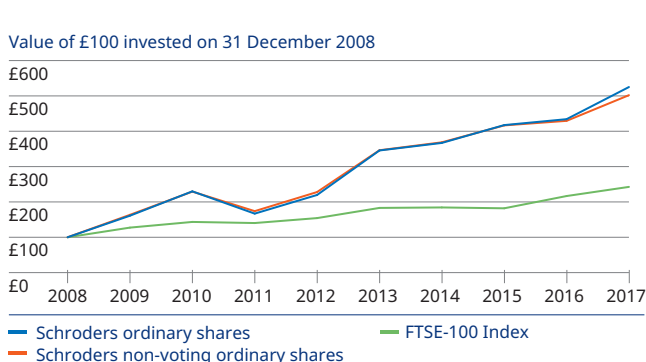
Remuneration at a glance

1. How we performed

The charts below provide an overview of Schroders' performance. Pages 14 and 15 provide information on our strategy for 2017 and beyond and pages 16 and 17 give more information on our key performance indicators. Pages 82 to 84 outline the basis for determining annual bonus awards for the executive Directors and the expected vesting of LTIP awards granted in March 2014.

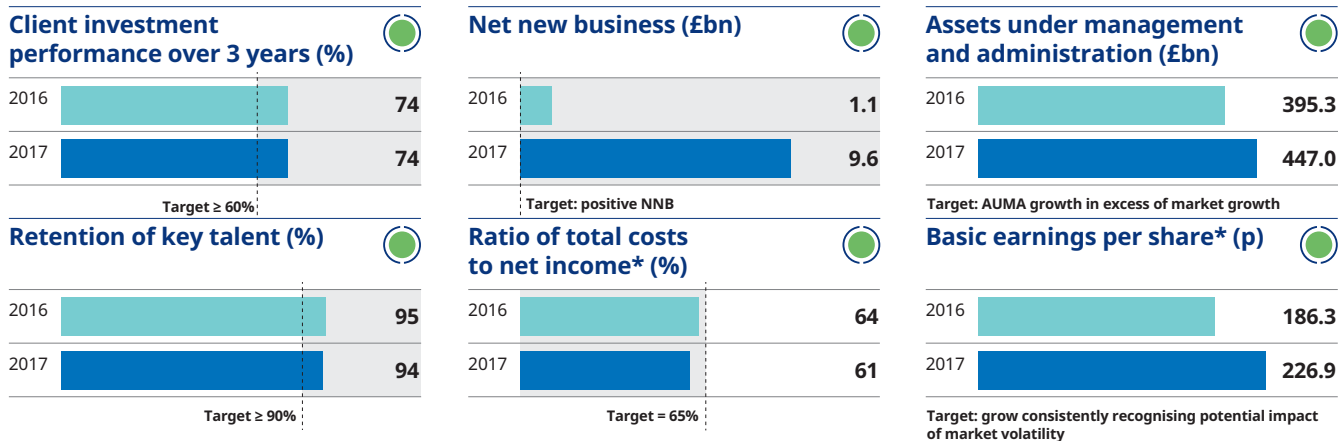
Performance of Schroders shares against the FTSE-100 Index and the relative spend on pay

The left-hand chart below compares the performance of Schroders shares with that of the FTSE-100 over nine years to 31 December 2017. Over this period the index has returned 143%, compared to a 425% return on Schroders ordinary shares. The right-hand chart shows how net income has been utilised over the same period, comparing remuneration costs before exceptional items and shareholder distributions to taxes arising and earnings retained. Distributions to shareholders in respect of 2017 formed a slightly larger proportion of the total than for 2016.



Other key factors in assessing the performance of the Group (see pages 82 to 83)

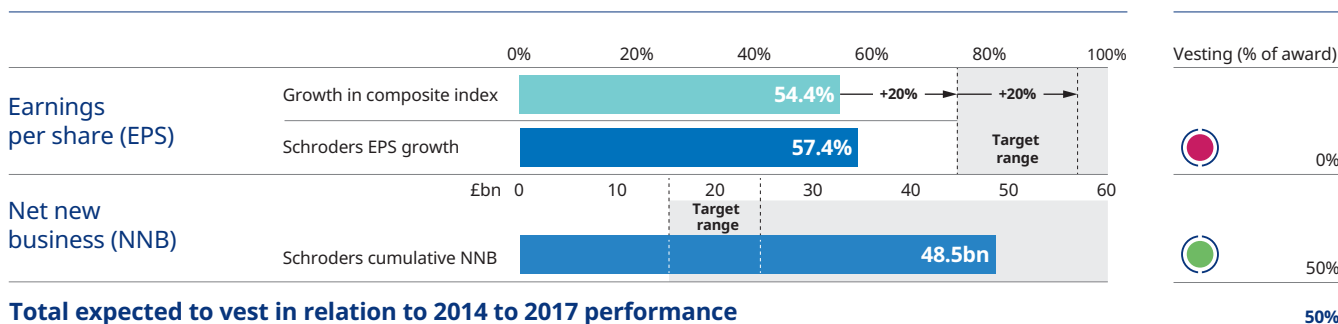
The following key performance indicators were amongst those that formed part of the Committee's determination of the executive Directors' pay.



* Before exceptional items.

Determining the vesting of LTIP awards granted in March 2014 (see page 84)

LTIP awards granted in March 2014 are expected to vest on 1 March 2018, based on two metrics as set out below.



● Criteria met ● Partially met ● Not met


2. Executive Directors' remuneration and shareholdings

The left-hand chart below compares the single total remuneration figures for 2017 and 2016 for each executive Director role. The right-hand chart compares each executive Director's shareholdings with that required under the personal shareholding policy.

Executive Director	Single total remuneration figure (£'000)						Value of shareholding vs shareholding policy (% of salary)		
Group Chief Executive ¹ Peter Harrison	2016	8%	45%	21%	21%	5%	6,311	Policy	500
	2017	8%	19%	19%	27%	27%	7,059	Actual	847
Chief Financial Officer Richard Keers	2016	15%	43%	21%	21%		2,878	Policy	300
	2017	13%	16%	16%	23%	23%	3,501	Actual	541

■ Fixed pay ■ Upfront bonus – cash ■ Upfront bonus – fund award ■ Deferred bonus – fund award ■ Deferred bonus – share award ■ LTIP vesting²

- Peter Harrison was appointed Group Chief Executive on 3 April 2016, prior to which he was an executive Director as Head of Investment. The bar representing 2016 remuneration in the left-hand chart above reflects his full-year remuneration in respect of 2016.
- LTIP vesting represents the estimated value at vesting from awards granted under the LTIP on 10 March 2014, which are expected to vest on 1 March 2018 based on performance against the performance conditions over the four financial years ended 31 December 2017.

 For more information on the single total remuneration figures see pages 79 to 84 and on the personal shareholding policy see page 87.

3. Executive Directors' remuneration policy overview

Components of executive Directors' remuneration:

Component	Policy overview
Fixed pay	<p>Base salary</p> <ul style="list-style-type: none"> Group Chief Executive: £500,000 Other executive Directors: £375,000 <p>These rates were last increased on 1 March 2014.</p> <p>Benefits and allowances</p> <p>Executive Directors receive benefits on the same basis as other UK employees.</p> <p>Retirement benefits</p> <p>Executive Directors may participate in UK pension arrangements or receive cash in lieu of pension on the same basis as other employees, 16% of base salary up to a maximum pensionable salary of £250,000, plus a match on employee contributions up to a further 2% of pensionable salary.</p>
Upfront annual bonus award	<p>Annual bonus awards incentivise the achievement of business priorities for the financial year, to align pay with performance and promote the long-term success of the Company. As the executive Directors are deemed to be MRTs under the UCITS Directive and AIFMD, half of the upfront portion of any annual bonus award (i.e. that part that is not deferred) is paid in cash and half granted as an upfront fund award, which cannot be exercised for six months from the date of grant.</p>
Deferred annual bonus award	<p>Approximately 60% of any annual bonus award is deferred, to align Directors' interests with those of clients and shareholders. The deferred portion is split equally into fund awards, available to exercise in equal instalments after 1.5, 2.5 and 3.5 years, and share awards, available to exercise in equal instalments after 1, 2 and 3 years.</p>
LTIP	<p>LTIP awards incentivise long-term performance and the achievement of strategic priorities to ensure the sustainable growth of the Group. The performance hurdles are highly demanding, based on earnings per share and net new business performance over a four-year period. The Committee may reduce the extent to which awards vest if the Group has suffered a material failure of risk management or if the Committee considers that the outcome from the performance conditions does not appropriately reflect underlying performance. A 12-month holding period applies from the date of vesting for LTIP awards granted from 2018, during which they cannot be exercised and malus conditions continue to apply.</p>
Malus and clawback policy	<p>Malus terms allow awards to be reduced or lapsed; clawback terms require amounts to be repaid. Under the Group's malus and clawback policy, these terms can be used to risk-adjust deferred remuneration awards in a range of circumstances, as described on page 71.</p>
Personal shareholding policy	<p>To align their interests with those of shareholders, the executive Directors are required to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary, or 500% of base salary for the Group Chief Executive. On stepping down as an executive Director, half that level of shareholding must be maintained for two years.</p>

 For more information on the policy see pages 69 to 75 and for more information on implementation of the policy during 2018 see page 90.

Remuneration governance

Responsibilities of the Committee

The responsibilities of the Committee include:

- Reviewing the Group's remuneration strategy and recommending the Directors' remuneration policy to the Board
- Determining the remuneration of executive Directors within the policy approved by shareholders
- Determining the remuneration of the Group Company Secretary, reviewing the remuneration of the Heads of Compliance, Risk, Internal Audit and the General Counsel, monitoring the level and structure of remuneration for other senior employees and material risk takers and overseeing remuneration more broadly across the Group
- Recommending to the Board the annual spend on fixed and variable remuneration
- Reviewing the design and operation of share-based remuneration and other deferred remuneration plans
- Overseeing any major change in the employee benefits structure throughout the Group
- Reviewing the remuneration disclosures required and ensuring compliance with those requirements
- Receiving and considering feedback from shareholders and representative shareholder bodies

The Committee's terms of reference are available on our website.

All members of the Committee are independent non-executive Directors. Biographical details and the experience of Committee members are set out on pages 44 and 45.

At the invitation of the Committee Chairman, the Group Chairman and Group Chief Executive attended five meetings, the Chief Financial Officer attended four meetings and Bruno Schroder attended two. No Director or employee participates in decisions determining his or her own remuneration.

The Group Head of Risk, the General Counsel and the Global Head of Compliance also advised the Committee on matters that could influence remuneration decisions and attended meetings if required. The Global Head of Equities attended one meeting to advise the Committee on remuneration arrangements within her area. PwC attended one meeting to advise the Committee on market practice and conditions for directors' remuneration and compliance with remuneration regulations. The Global Head of Human Resources and the Head of Compensation and Benefits attended meetings to provide advice and support the Committee with secretarial services.

Key areas of focus during the year

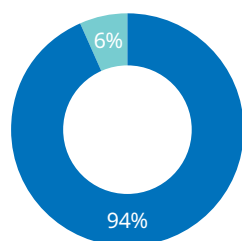
The table below summarises the key issues that the Committee considered at each of its meetings during 2017. Remuneration packages for new hires or severance arrangements for roles subject to the Committee's oversight were reviewed at each meeting as required. In addition, the Board as a whole reviewed the remuneration strategy in July (see page 51).

Meeting date	Key issues considered
January	<ul style="list-style-type: none"> - Compensation review 2016 - Remuneration disclosures - Material risk taker populations - Internal audit of remuneration compliance - Forecast vesting of LTIP awards granted in 2013 - Performance conditions for LTIP awards to be granted in 2017 - Corporate governance developments - Minor changes to deferred compensation plan rules
February	<ul style="list-style-type: none"> - Compensation review 2016
May	<ul style="list-style-type: none"> - Shareholder and voting agency feedback on remuneration - Review of advisers to the Committee - Alignment of remuneration to client and shareholder interests - Annual performance objectives of the Group Chief Executive - Remuneration disclosures - Remuneration arrangements in particular business areas - Regulatory developments
July (Board meeting)	<ul style="list-style-type: none"> - Directors' remuneration policy - Remuneration philosophy for other employees - UCITS Directive and AIFMD remuneration structure
October	<ul style="list-style-type: none"> - UCITS Directive and AIFMD remuneration structure - Approval of Equity Incentive Plan awards - Compensation review 2017 - Gender pay gap - Remuneration disclosures - Regulatory developments
December	<ul style="list-style-type: none"> - Material risk taker population - UCITS Directive and AIFMD remuneration structure - Compensation review 2017 - Sustainability of earnings - Risk, legal and compliance matters - Forecast vesting of LTIP awards granted in 2014 - Remuneration benchmarking for key leadership roles - Regulatory developments

Shareholder voting on remuneration

At the 2017 AGM, shareholders approved the Directors' remuneration policy, which applies for three years from the date of approval. Shareholders also approved the Remuneration report that was published in the 2016 Annual Report and Accounts. The results of these votes are shown below:

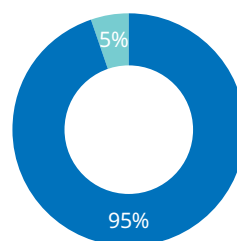
To approve the Directors' remuneration policy at the 2017 AGM



	2017 AGM voting	
Votes for	181,963,125	
Votes against	12,623,229	
(Votes withheld)	461,454	

To approve the relevant Directors' remuneration policy	Votes for	Votes against
2014 AGM	92%	8%
2017 AGM	94%	6%

To approve the remuneration report at the 2017 AGM



	2017 AGM voting	
Votes for	184,444,561	
Votes against	10,235,976	
(Votes withheld)	367,271	

To approve the relevant remuneration report	Votes for	Votes against
2014 AGM	94%	6%
2015 AGM	97%	3%
2016 AGM	96%	4%
2017 AGM	95%	5%

External advisers

The Committee appointed or received advice from the advisers shown in the table below. Advisers were selected on the recommendation of the Global Head of Human Resources and the Head of Compensation and Benefits.

	Appointed by	Services provided to the Committee	Other services provided to the Group	Fees paid for services to the Committee during 2017 (£'000)
McLagan (Aon) Limited (McLagan)	The Committee	Information on market conditions and competitive rates of pay.	Information on market conditions and competitive rates of pay.	15
PwC	The Company	The Committee did not independently engage PwC to provide any services. However, advice to management on market practice and conditions for directors' remuneration and compliance with remuneration regulations was discussed at Committee meetings.	Advice to management on market practice and conditions for directors' remuneration and on compliance with remuneration regulations.	30

The Committee is satisfied that the advice received from McLagan was independent and objective as it was factual and not judgemental. McLagan is part of Aon plc, which also provides advice and services to the Company in relation to pension benefit valuations and pension actuarial advice. McLagan's fees were charged on the basis of a fixed fee for the preparation of reports setting out the information requested.

PwC is the Group's external auditor. Any non-audit services provided by PwC are subject to review in accordance with arrangements for the provision of such services, as described in the Audit and Risk Committee report on page 58. The Committee did not independently engage PwC to provide any services but is satisfied that the advice received from PwC was independent and objective as it was factual and not judgemental. PwC's fees for services provided to the Company were charged on the basis of time spent.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process by Independent Board Evaluation. The findings relating to the Committee were discussed with the Chairman. The Board felt the Committee had delivered a Directors' remuneration policy review with full shareholder consultation. The opportunity for the Board to discuss remuneration strategy was seen as a major positive. In terms of areas for possible improvement, the burden of paperwork on the Committee had increased over the past year, which could lead to a level of detail which was too granular.

Remuneration principles

The overall remuneration policy is designed to promote the long-term success of the Group.

The Committee has developed the remuneration policy with the following principles in mind:



Aligned with clients

A significant proportion of higher-earning employees' and material risk takers' variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.



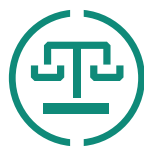
Aligned with shareholders

A significant proportion of variable remuneration is granted in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. Executive Directors and other members of the GMC are required, over time, to acquire and retain a significant holding of Schroders shares or rights to shares. On stepping down, the executive Directors are required to maintain a level of shareholding for two years.



Aligned with financial performance

The total spend on remuneration is managed as a percentage of net income, the total compensation ratio. This ratio is determined by the Committee and recommended to the Board. This approach aligns remuneration with financial performance.



Competitive

Employees receive a competitive remuneration package, which is reviewed annually and benchmarked by reference to the external market. This allows us to attract and retain the best talent, who know that good performance will be rewarded.



Designed to encourage retention

Deferred variable remuneration does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full.

Directors' remuneration policy summary

The Directors' remuneration policy is summarised on pages 69 to 75. Shareholders approved the policy at the 2017 AGM on 27 April 2017 and it is expected to apply for three years from that date. We are required to bring the policy for shareholder approval no later than the 2020 AGM. The full Directors' remuneration policy can be found on pages 75 to 81 of our 2016 Annual Report and Accounts, which is available on our website at schroders.com/annualreport2016.

Summary of the remuneration policy for the executive Directors

The table below summarises how the remuneration policy is implemented for the key components of remuneration for the executive Directors. The remuneration policy for non-executive Directors is summarised on page 74.

Component, purpose and link to strategy	Operation
<p>Base salary</p> <p>To help recruit, reward and retain talent. Reflects a market competitive rate of pay taking account of the employee's role and responsibilities, skills and experience, and ongoing contribution.</p>	<p>Base salary is paid in cash via payroll. We review base salaries annually but for the executive Directors and other higher-paid employees we adjust base salaries infrequently. We last increased the level of base salary for the executive Directors on 1 March 2014.</p> <p>We aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared to other listed financial services firms and FTSE-100 companies.</p>
<p>Benefits and allowances</p> <p>To help recruit, reward and retain talent. Reflects local market practice and aims to support employee health and wellbeing.</p>	<p>Executive Directors receive the same benefits in kind as other UK employees. A cash allowance is used to fund benefit options under a flexible benefits plan. Available benefits include private healthcare, life assurance, accidental death, injury or sickness insurances and tax-efficient charitable donations which are matched by the Company (see page 30).</p> <p>Directors are also covered by the Group's Directors' and Officers' Liability Insurance. Executive Directors may also benefit from private use of a car and driver.</p>
<p>SIP</p> <p>To help increase the number of employee shareholders and increase their participation as shareholders. Provides potential UK tax benefits.</p>	<p>Like other employees in the UK, executive Directors are eligible to participate in the Share Incentive Plan (SIP). Participating employees use their own funds to acquire Schroders shares (partnership shares) and in return receive awards of shares from Schroders (matching shares) of up to £100 per month based on the market value of the shares. The value of any SIP matching shares awarded to the executive Directors during the year is included within the value reported for benefits and allowances.</p> <p>To qualify for maximum tax benefits these shares must be left in the SIP for five years. Participants are free to withdraw their partnership shares at any time but forfeit the corresponding matching shares if they do so or cease to be in employment within one year of acquiring the relevant partnership shares, except in certain circumstances as set out in the rules of the SIP. 79% of UK employees participated in the SIP as at 31 December 2017 (2016: 77%).</p>
<p>Retirement benefits</p> <p>To help recruit, reward and retain talent. Reflects local market practice and enables and encourages provision for retirement.</p>	<p>Executive Directors may participate in pension arrangements, or receive cash in lieu of pension, on the same basis as other UK employees. Base salary is the only pensionable component of remuneration, up to a maximum pensionable salary of £250,000. The Group's contributions are currently 16% of pensionable salary, plus a contribution to match employee contributions up to a further 2% of pensionable salary. Employees have flexibility and choice over the balance between employer pension contributions and cash in lieu, with options to take as cash some or all of the amount the Company would otherwise contribute to the pension plan.</p>

Fixed pay

Component, purpose and link to strategy

Operation

Annual bonus award
 To motivate employees to achieve financial, non-financial and personal objectives for the financial year, which are consistent with the Group's strategy. Helps reward talent for their individual contribution. For executive Directors, awards reflect annual performance along with performance over a longer timeframe for some metrics.

Pay for performance – annual bonus award – upfront

Executive Directors are eligible to be considered for an annual bonus award. Awards in respect of each financial year are discretionary and non-pensionable.

The Committee determines the amount, if any, that is awarded based on a combination of financial and non-financial factors, including individual performance objectives, that may vary from year to year to ensure alignment with the Group's strategic goals. The Committee assesses the overall performance of the business and of each executive Director and applies its judgement to determine an award, taking account of the recommendation of the Chairman in respect of the Group Chief Executive and of the Group Chief Executive in respect of other executive Directors. More information on the factors considered by the Committee in determining the annual bonus awards for executive Directors in respect of performance in 2017 can be found on pages 82 and 83.

Initially we defer 60% of any annual bonus awarded to the executive Directors. Where an LTIP award has been granted during the year, we reduce the deferral in respect of that year by 25% of the grant value of the LTIP award. Of the upfront portion (i.e. that part that is not deferred), we pay 50% in cash in February following the end of the financial year and grant the other 50% as an upfront fund award under the DAP. We grant the deferred portion as a combination of fund and share awards, also under the DAP. In 2017, we granted deferrals equally between fund and share awards, subject to a minimum fund award of £10,000. These DAP awards are explained below.

This structure for the executive Directors' annual bonus awards is the same as for other UCITS / AIF MRTs, save that the executive Directors deferral is fixed at 60% and is then subject to the LTIP adjustment, while for most other MRTs the proportion of bonus deferred varies from 40% to 60%.

DAP
 The Group's main deferral arrangement for annual bonus awards to employees deemed to be material risk takers under the UCITS Directive or AIFMD. Aligns the interests of employees with those of clients and shareholders, provides an incentive for the employee to stay at Schroders and makes it more expensive for competitors to recruit talent from Schroders.

Pay for performance – annual bonus award – deferred

We grant DAP awards to the executive Directors on the same basis as those granted to other UCITS / AIF MRTs. Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. Share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to dividends accrue until the award is exercised.

An upfront fund award cannot be exercised for six months from the date of grant. It is not normally subject to forfeiture if the holder leaves the Group but is subject to malus terms from the date of grant to the date of settlement and then clawback terms for 12 months from the date of settlement.

Deferred fund awards normally require the participant to be employed continuously by the Group until 3.5 years from grant to vest in full. These awards are available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from the grant date. If an MRT resigns prior to the final vesting date then they normally forfeit part of these awards, as follows:

Years since grant date:	Less than 1.5	1.5 to 2.5	2.5 to 3.5
% lost for fund awards	100%	66.7%	33.3%

Deferred share awards operate on similar terms but the deferral period is three years, rather than 3.5. These awards are available to exercise in three equal instalments after 1, 2 and 3 years from the grant date. If an MRT resigns prior to the third anniversary of grant the forfeiture terms are as follows:

Years since grant date:	Less than 1	1 to 2	2 to 3
% lost for share awards	100%	66.7%	33.3%

LTIP
 To incentivise executive Directors to deliver long-term performance and the achievement of strategic priorities, while maximising alignment with shareholder interests.

Pay for performance – LTIP

Executive Directors typically receive an LTIP award in March each year. LTIP awards are conditional rights to acquire shares in the Company at nil cost. From 2018, awards granted to executive Directors are subject to a 12-month holding period from when they vest, during which they cannot be exercised, after which they may then be exercised within a 12-month period.

The Committee sets performance conditions for each award. As for previous awards, the performance targets for awards to be granted in 2018 relate to EPS growth, in respect of 50% of each award, and NNB in respect of the other 50% (see pages 84 and 90).

LTIP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the awards vest, following the end of the four-year performance period. At that time, the Committee will determine the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised.

For LTIP awards granted from 2018 onwards, when determining vesting the Committee has the discretion to reduce the extent to which awards vest if the Group has suffered a material failure of risk management or if the Committee judges that the unadjusted outcome from the performance conditions does not reflect underlying performance.

Component, purpose and link to strategy	Operation
<p>Malus and clawback policy</p> <p>To allow variable remuneration awards to be risk-adjusted in certain circumstances.</p>	<p>Under malus terms, deferred remuneration awards granted under the DAP, ECP, Equity Incentive Plan (EIP) or LTIP may be reduced or lapsed, at the Committee's discretion. Under clawback terms, amounts paid or released from such awards may be recovered for a period of 12 months from the date of payment or release, at the Committee's discretion. The circumstances in which malus and clawback could be applied include a material misstatement of the Group's financial results, individual misconduct or negligence.</p> <p>Malus and clawback terms apply to awards granted to the executive Directors, on the same basis as for other employees. In addition, executive Directors' contracts extend clawback terms to the upfront cash portion of any annual bonus awards, in the event of individual misconduct. Malus terms apply to ECP awards granted since May 2011, to EIP awards granted since July 2013 and to DAP and LTIP awards granted at any time. Clawback applies to ECP, EIP and LTIP awards granted since October 2013 and to DAP awards granted at any time. For awards granted prior to 2018 the circumstances in which malus and clawback terms could be applied were more narrowly described.</p>
<p>Personal shareholding policy</p> <p>To align the interests of senior management with those of shareholders.</p>	<p>The executive Directors are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary, or 500% of base salary for the Group Chief Executive. On stepping down as an executive Director, a level of shareholding must be maintained for two years. The level of shareholding that must be maintained is half the level of shareholding required while an executive Director or, if lower, the actual level of shareholding on stepping down.</p> <p>Each executive Director undertakes not to sell or transfer any Schroders shares until their share ownership target has been reached and to ensure that the required shareholding is maintained when selling or transferring shares, except that shares may be sold to satisfy tax and social security liabilities arising when an award vests or is exercised. For these purposes, rights to shares includes the estimated after-tax value of DAP, ECP and EIP share awards but does not include any unvested rights to shares awarded under the LTIP, as these are subject to performance conditions.</p>
<p>Shareholder dilution</p>	<p>Deferred remuneration plans involving Schroders shares are non-dilutive to shareholders, as shares to satisfy awards are purchased in the market.</p>

Details of our other deferred remuneration plans, the ECP and the EIP, are on page 75. The expectation is that the DAP will be used in place of the ECP for future deferred bonus awards to the executive Directors. ECP awards granted to the executive Directors during 2017 are shown on page 86. Directors are not eligible to be granted awards under the EIP.

Considerations when determining the remuneration approach for UCITS / AIF MRTs

As set out in the Committee Chairman's statement on page 62, from 2017 we have changed the remuneration approach for employees deemed to be MRTs under the UCITS Directive or AIFMD, to meet the requirements of those Directives. The executive Directors' bonuses continue to operate in line with the Directors' remuneration policy approved by shareholders in April 2017. However, as UCITS funds and funds subject to AIFMD represent a significant part of the Group, we have included the executive Directors as MRTs under these rules.

For the executive Directors, as UCITS / AIF MRTs, we have adjusted our remuneration policy implementation for performance-year 2017 and for future years as follows:

- We have increased the proportion of executive Directors' annual bonus awards that is deferred, from approximately 50% to approximately 60%.
- We continue to split the executive Directors' deferred annual bonus awards equally between fund awards and share awards, creating alignment with clients and shareholders.
- Previously all of the upfront portion of any annual bonus award (i.e. that part that is not deferred) was paid in cash. This year we paid only half of the upfront bonus in cash and granted the other half as an 'upfront fund award'. Upfront fund awards are granted at the same time as deferred bonus awards and cannot be exercised for six months from grant. This further aligns the interests of the executive Directors with our clients. Unlike the deferred portion of any bonus, an upfront fund award is not normally at risk of forfeiture if the holder leaves the Group.
- We also extended the overall deferral period for deferred fund awards by six months. These awards will be available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from the date of grant. The overall deferral period for share awards remains three years and these awards will be available to exercise in three equal instalments after 1, 2 and 3 years from the grant date.
- We created a new deferred remuneration plan, the DAP, and used this to grant deferred bonuses and upfront fund awards for MRTs, including the executive Directors. The plan we previously used to grant deferred bonuses, the ECP, is sufficiently flexible for us to grant awards under this new approach but we designed the DAP specifically with the new approach in mind. Prior shareholder approval of the DAP is not required as any awards to the executive Directors under this plan will only be in respect of the deferral of bonus. Employees who are not deemed to be UCITS / AIF MRTs continue to be granted deferred bonuses under the ECP.
- We adopted a broader description of the circumstances in which malus and clawback terms could be applied, which include a material misstatement of the Group's financial results, individual misconduct or negligence.

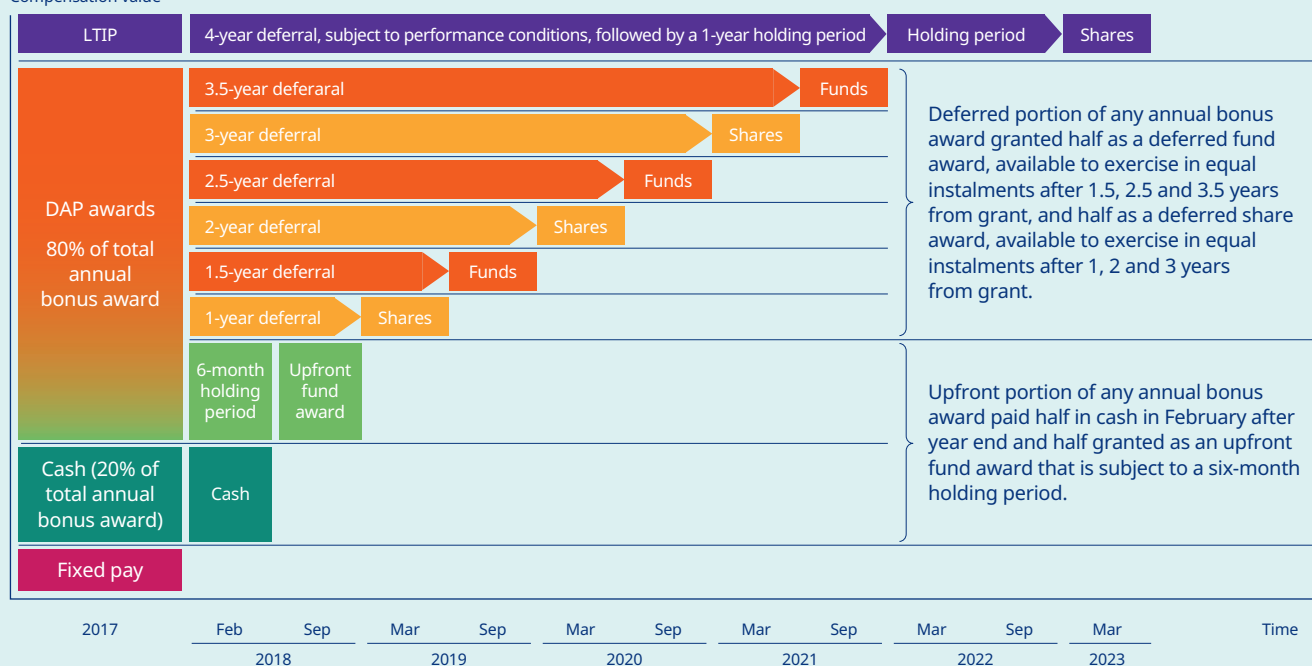
These changes in approach are reflected in the remuneration policy summary for the executive Directors on pages 69 to 71.

Executive Directors' remuneration policy illustrations

The diagram below illustrates the structure of the executive Directors' remuneration, including the timing of when they receive each component of their total remuneration, across the following:

- Fixed components of pay, for salary, benefits and allowances based on when they are paid or enjoyed, and for retirement benefits on when contributions are made or cash in lieu paid;
- The different components of any annual bonus award, showing for each portion when it will be paid or available to exercise; and
- The LTIP performance and holding periods, based on the LTIP awards to be granted following the financial year end.

Compensation value



The table below provides more information on each of the components of pay illustrated above.

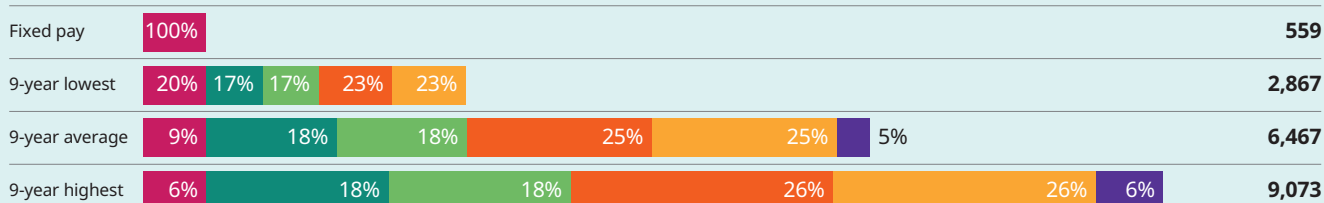
Component of pay	Deferral and holding periods	Malus applies until paid / settled	Clawback applies
LTIP	Vests after the 4-year performance period, followed by a 1-year holding period	May be exercised from when the holding period ends for a 12-month period	For 12 months from settlement. This period may be extended in certain circumstances
Deferred bonus - fund award	Deferred for 1.5, 2.5 or 3.5 years, so normally available to exercise from September of years 1, 2 or 3 following grant	May be exercised from when the deferral period ends to the 5 th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Deferred bonus - share award	Deferred for 1, 2 or 3 years, so normally available to exercise from March of years 1, 2 or 3 following grant	May be exercised from when the deferral period ends to the 10 th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Upfront bonus - fund award	Six-month holding period, so normally available to exercise from September following the year end	May be exercised from when the holding period ends to the 5 th anniversary of grant	For 12 months from settlement. This period may be extended in certain circumstances
Upfront bonus - cash	Paid in February following the year end	Conditions comparable with malus terms apply until the date of payment	For 12 months from the payment date. This period may be extended in certain circumstances
Fixed pay	Paid during the performance-year	Not applicable	Not applicable

Remuneration policy scenarios

The potential value of each component of remuneration for the executive Directors is illustrated below. These scenario charts show, for each of the executive Director roles, the relative split of fixed components of remuneration, annual bonus awards and LTIP awards, in accordance with the Directors' remuneration policy. The lowest, average and highest remuneration over the nine years ended 31 December 2017 has been used as an indication of the earnings potential for each role. Over the same period, profit before tax and exceptional items has ranged from £137.5 million to £800.3 million. Future remuneration will be determined based on performance, as described elsewhere in this report.

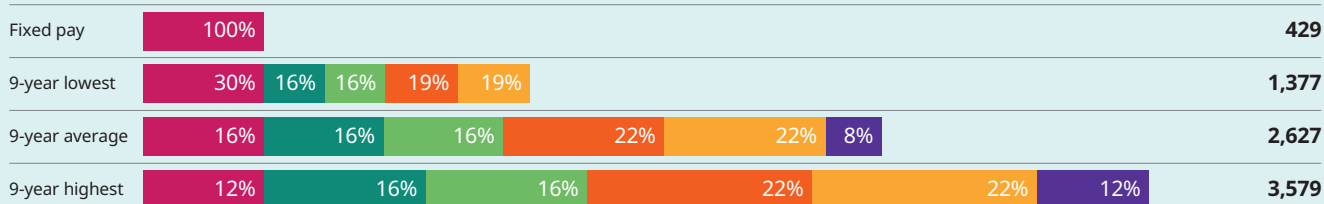
Group Chief Executive (£'000)

Peter Harrison



Chief Financial Officer (£'000)

Richard Keers



■ Fixed pay ■ Upfront bonus – cash ■ Upfront bonus – fund award ■ Deferred bonus – share award
■ Deferred bonus – fund award ■ LTIP

The remuneration policy illustrations above are based on actual fixed pay and annual bonus awards for each role over the nine years ended 31 December 2017 and the LTIP awards due to be granted in March 2018 (see page 90), as follows:

Fixed pay

In these scenarios, fixed pay consists of base salary, benefits and allowances and retirement benefits. Salary is the annual salary effective from 1 March 2018. Benefits and allowances and retirement benefits are the anticipated annualised amounts from 1 March 2018.

£'000	Base salary	Benefits and allowances	Retirement benefits	Total fixed pay
Group Chief Executive	500	14	45	559
Chief Financial Officer	375	9	45	429

	Lowest	Average	Highest
Annual bonus award	Being the lowest over the last nine years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.	Being the mean over the last nine years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.	Being the highest over the last nine years of the sum of actual annual bonus award and actual fixed pay each year, less the fixed pay value shown above.
	In all three scenarios the annual bonus award is then partly paid in cash, part granted as an upfront fund award and part subject to deferral into fund and share awards, as outlined in the policy.		
LTIP	Assuming no vesting.	Being the face value of the award to be granted in March 2018, assuming 50% vesting.	Being the face value of award to be granted in March 2018, assuming 100% vesting.

The total remuneration values used in these scenarios for the Group Chief Executive reflect the remuneration awarded to Peter Harrison in respect of 2016 and 2017 performance and to Michael Dobson in respect of performance in 2009 to 2015. For the Chief Financial Officer they reflect the remuneration awarded to Richard Keers for performance in 2013 to 2017 and to his predecessor Kevin Parry for performance in 2009 to 2012.

Summary of the remuneration policy for the non-executive Directors

The table below sets out the remuneration policy for non-executive Directors, who only receive fixed pay and benefits.

Component	Operation	Further information
<p>Fees</p> <p>To reflect the skills, experience and time required to undertake the role.</p>	<p>Fees for the Chairman and other non-executive Directors (see page 86) are determined by the Board based on market information for comparable asset managers and other financial services groups and the constituent companies of the FTSE-100 Index. Non-executive Directors do not participate in decisions concerning their fees.</p>	<p>Although Directors' fees are reviewed biennially the Board membership fee had not increased since 2011. It was decided that this fee should be increased to £80,000 with effect from 1 July 2017. This equates to an annualised increase of 2.3%, compared to an average annualised salary increase for employees of 4.4% over the same period. The fee for the Senior Independent Director was increased to £20,000, not having been adjusted since it was introduced in 2011. The Chairman's fee, and the fees for Committee Chairmanship and membership, were unchanged.</p>
<p>Benefits</p> <p>To enable the non-executive Directors to undertake their roles.</p>	<p>Non-executive Directors' benefits are principally expenses incurred in connection with the Group's business and reflect business needs. Non-executive Directors may receive private use of a driver, car parking, meals, travel costs, tax on reimbursed benefits and, in the case of Bruno Schroder, private health care and medical benefits. Michael Dobson receives life insurance benefits on the same terms as UK employees and private health care and medical benefits for him and his family.</p>	<p>Schroders does not pay retirement or post-employment benefits to non-executive Directors. They do not participate in any of the Group's incentive arrangements. Michael Dobson, Philip Mallinckrodt and Bruno Schroder have accrued pension benefits, as former executives. Michael Dobson and Bruno Schroder have been in receipt of a pension since May 2012 and April 2007 respectively. All three have ceased accruing any further entitlement.</p>

Recruitment of new Directors

On appointment, the Committee aims to pay executive Directors remuneration that is appropriate in level and structure to attract, motivate, retain and reward Directors of the quality required to run the Group successfully, while avoiding paying more than is necessary.

The level of base salary is likely to be set at the same level as for other Directors, provided this is justifiable by reference to the candidate's skills and experience, and taking into account remuneration in their most recent role, internal relativities and external market rates for roles with similar responsibilities. Benefits and allowances, retirement benefits and SIP participation will be provided to new executive Directors on a similar basis as to other employees. If the Group hires a new executive Director internationally then relocation support may be offered, on a similar basis to that which would be offered for other employees.

New executive Directors would be eligible to be considered for annual bonus awards and LTIP awards in the same way as existing Directors. The Group does not award guaranteed annual bonuses to executive Directors.

New non-executive Directors receive fees and benefits in line with the policy for other non-executive Directors. Non-executive Directors are engaged under letters of appointment. They do not have service contracts. When recruiting new non-executive Directors, the Board's policy is that letters of appointment will have a mutual notice period of six months.

Directors' service contracts and letters of appointment

Each of the executive Directors has a rolling service contract with a mutual notice period of six months. Each of the non-executive Directors has a letter of appointment with a mutual notice period of six months, with the exception of Bruno Schroder who does not have a notice period.

Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at the AGM.

Summary of the policy on termination arrangements

When an executive Director leaves the Group, the Committee will review the circumstances and apply the treatment that it believes is appropriate. Any payments will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any deferred remuneration plans and the Directors' remuneration policy. There are no contractual provisions for non-executive Directors to receive compensation upon termination.

Base salary, benefits and allowances, and retirement benefits for executive Directors will continue to be paid through the notice period, as will fees for non-executive Directors. The Committee also has the discretion to make a payment in lieu of notice to executive Directors, normally based on salary only. The treatment of shares acquired or awarded under the SIP will be in accordance with the plan rules.

Departing executive Directors do not have a contractual entitlement to an annual bonus award. If a departing Director works during the notice period to achieve the Group's goals and supports an effective transition of responsibilities, the Committee may recommend to the Board that a discretionary payment be made to reflect the Director's contribution during the proportion of the financial year worked. Any such payment will normally be subject to the same deferral arrangements as an annual bonus award, provided this is permitted under applicable law and regulations and except in the case of death, ill health or injury when payment may be fully in cash, at the Committee's discretion.

The treatment of awards under the DAP, ECP and EIP held by departing executive Directors will be in accordance with the relevant plan rules. In certain circumstances, those rules permit participants to retain some or all of their unvested awards following the termination of their employment, for example if the employee is leaving due to ill health or injury, or otherwise at the discretion of the Committee. Any unvested awards that are retained will vest on their normal vesting date except in the case of death, and ill health at the Committee's discretion, when they vest immediately. The treatment of LTIP awards is similar except that in all cases any vesting remains subject to satisfaction of the associated performance conditions and will be reduced pro-rata for the proportion of the performance period worked, and that the Committee does not have the discretion to accelerate vesting for those leaving due to ill health.

On stepping down, executive Directors are required to maintain for a period of two years a holding of shares or interests in shares equal in number to half that which applied under the personal shareholding policy prior to stepping down, or the number actually held on stepping down if lower.

Other deferred remuneration plans

The DAP and LTIP are explained in the executive Directors' remuneration policy summary, on page 70. The boxes on the right provide more information on our other deferred remuneration plans, the ECP and the EIP.

Equity Compensation Plan (ECP)

The ECP is one of the Group's main deferral arrangements for annual bonus awards, alongside the DAP. ECP awards relate to the past year's performance and are not subject to any further performance conditions. ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed until the third anniversary of grant in order to vest in full, except in certain circumstances such as death, ill health or otherwise at the Committee's discretion.

Deferred bonuses for employees who are not UCITS / AIF MRTs are delivered as a combination of ECP fund awards and ECP share awards. ECP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. ECP share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to dividends accrue until the award is exercised.

Equity Incentive Plan (EIP)

The EIP is an additional deferred remuneration plan, used to reward exceptional performance and potential. EIP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the fifth anniversary of grant. If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full. Malus and clawback terms apply. Executive Directors are not eligible to be granted new EIP awards.

EIP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. EIP share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to dividends accrue until the award is exercised.

Annual report on remuneration

Pages 76 to 90 constitute the Annual report on remuneration. Shareholders will have an advisory vote on this, together with pages 62 to 67, at the AGM. Where required, this information has been audited by PwC.

This section sets out remuneration disclosures for 2017, across Schroders as a whole and specifically for the executive and non-executive Directors, and compares this to remuneration for 2016. The Directors' remuneration was compliant with the policy approved by shareholders at the 2017 AGM.

This section also sets out the context for the Directors' remuneration, including the main performance metrics that the Committee considered when setting the overall annual bonus pool and information on how annual bonus awards were allocated across the Group, along with details of the key performance criteria considered when determining executive Directors' annual bonus awards. Returns to shareholders over the last nine years are compared with the total remuneration of the Group Chief Executive over the same period. Directors' rights under fund and share awards and the share interests of Directors and their connected persons are also detailed.

Aligning pay and performance across Schroders

Group performance (audited)

Net income excluding exceptional items increased 15% in 2017 reflecting continued net new business wins and positive investment returns for clients. The Group saw record profit before tax and exceptional items of £800.3 million, up 24%, and basic earnings per share before exceptional items of 226.9 pence, up 22%. The Board is recommending a final dividend of 79.0 pence, bringing the total dividend for the year to 113.0 pence, an increase of 22%.

Net new business was £9.6 billion (2016: £1.1 billion), with net inflows across all channels. AUMA ended the year at a record high of £447.0 billion (2016: £395.3 billion) and 74% (2016: 74%) of our AUM outperformed their stated comparator in the three years to 31 December 2017.

Further information on the Group's operating and financial performance can be found in the Strategic report, beginning on page 6. Within the Strategic report, the table on pages 14 and 15 outlines the Group's strategy and how our objectives are aligned with those of our clients. Pages 16 and 17 show our performance against our key performance indicators over the five years to 31 December 2017.

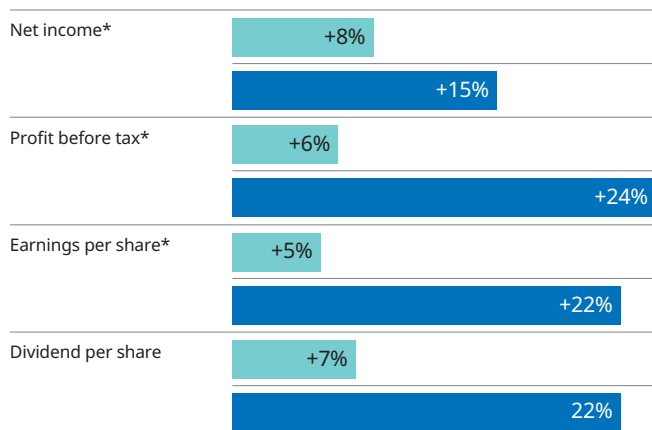
Aligning remuneration costs with financial performance

The total spend on remuneration is derived from the total compensation ratio, measuring total remuneration expense against net income. This ensures that the interests of employees are aligned with the Group's financial performance.

The Committee received a report on the underlying strength and sustainability of the business and reports on risk, legal and compliance matters from the heads of those areas. These were considered as part of the 2017 compensation review.

The Committee determined the annual bonus pool for the year ended 31 December 2017 based on a total compensation ratio of 43% (2016: 44%). On an underlying basis the total compensation ratio is unchanged year on year, as we have around a 1% benefit from higher levels of bonus deferral for our UCITS / AIF MRTs. The underlying total compensation ratio is below our target range of 45% to 49%, as the Committee and the Board as a whole remain mindful of the significant challenges the asset management industry faces. From 2016 to 2017, headcount is up 11% and fixed remuneration costs are up 15%. The annual bonus pool was up 12%, assuming constant currency rates.

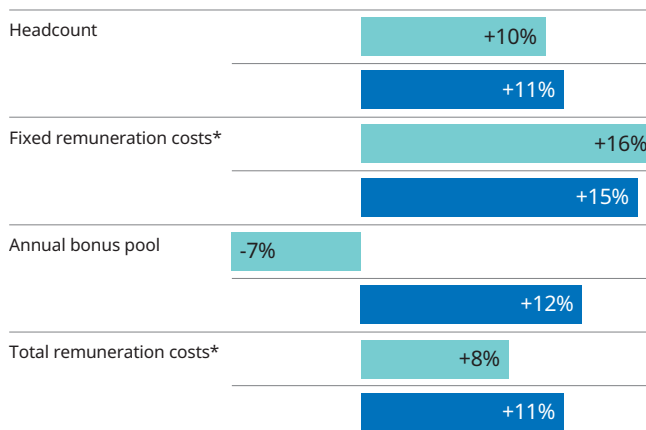
Key performance metrics



■ 2016 vs 2015
■ 2017 vs 2016

* Before exceptional items.

Key remuneration metrics

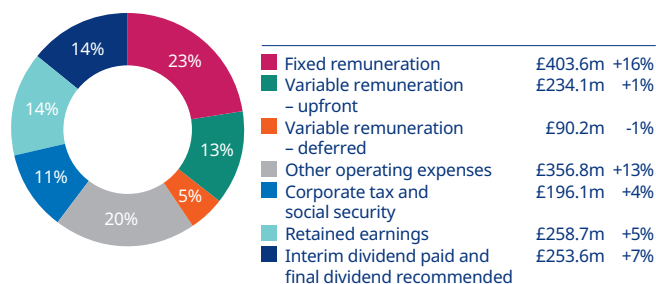


■ 2016 vs 2015
■ 2017 vs 2016

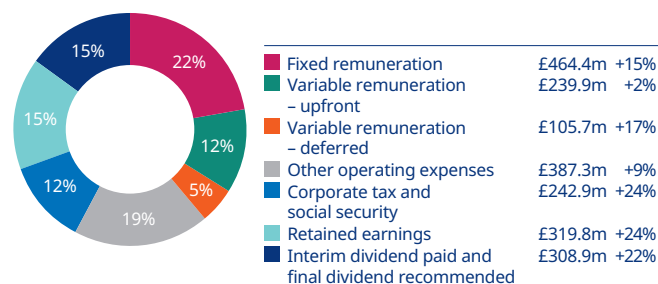
Relative spend on pay

The charts below illustrate the relative spend on pay for 2017 compared with 2016. The values are taken from the financial statements and show how remuneration costs before exceptional items compare with shareholder distributions, taxes arising and earnings retained, in order to illustrate how net income is utilised. Distributions to shareholders in respect of 2017 formed a slightly larger proportion of the total than for 2016.

2016 (% vs 2015)



2017 (% vs 2016)



The annual bonus pool and annual bonus award allocations across the Group

The Group Chief Executive allocates the overall pool between the divisions or functions headed by GMC members, taking into consideration the objectives, both financial and non-financial, that were set at the beginning of the year. Variable remuneration awards for individual employees, other than those determined by the Committee or the Group Chief Executive, are recommended to the Group Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant business area and the levels of reward for comparable roles in the market.

The Committee determines the remuneration for the executive Directors and Group Company Secretary, monitors and reviews remuneration for other GMC members, control function heads and other MRTs, and also provides oversight of the compensation review overall. For 2017, the Committee was satisfied that the process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance, including conduct and behaviours as described on page 89.

The table below compares the annual bonus pools for 2017 and 2016, divided into amounts paid in cash, upfront fund awards and amounts deferred. The 2016 figures are also shown after adjusting to reflect the foreign exchange rates used during the 2017 compensation review, to provide a better comparison of what was awarded to employees each year.

This year we have made changes to our remuneration approach for employees deemed to be UCITS / AIF MRTs (see page 62). These include increased bonus deferral levels for these employees and the use of upfront fund awards for half of that portion of any bonus that is not deferred. The impact of these changes is reflected in the figures shown above.

	2017	Adjusted 2016 ¹	2016
	£m	£m	£m
Total compensation ratio	43%	n/a	44%
Annual bonus awards paid in cash	208.7	241.9	234.1
Annual bonus awards granted in upfront fund awards	31.2	0.0	0.0
Annual bonus awards deferred into fund awards	59.1	36.6	35.6
Annual bonus awards deferred into share awards	61.4	42.6	41.3
Bonus pool	360.4	321.1	311.0
Proportion of bonus pool that is deferred	33%	25%	25%
Number of bonus-eligible employees	3,914	3,622	3,622
Mean annual bonus award per bonus-eligible employee	£92,070	£88,643	£85,857
Median annual bonus award per bonus-eligible employee	£20,000	£18,293	£18,000 ²
Group Chief Executive's bonus as a % of the bonus pool	1.8%	1.7%	1.8%
Aggregate bonuses to executive Directors as a % of the bonus pool	2.6%	4.0%	4.2%

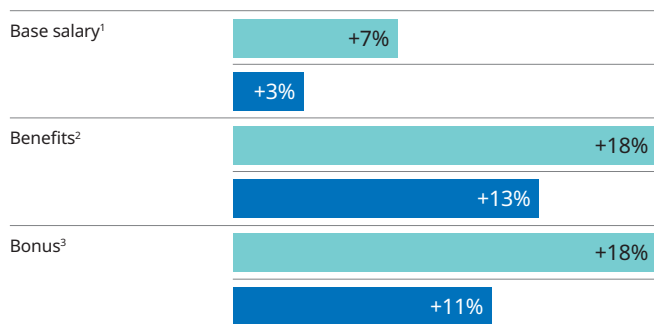
1. Adjusted to reflect the same foreign exchange rates as those used for the 2017 figures.

2. Restated from £17,806 to include bonuses paid to employees who left employment prior to the bonus payment date.

Comparison of the percentage change in base salary, benefits and annual bonus award

The chart below compares, for each of base salary, benefits and annual bonus award, the percentage change from 2016 to 2017 for the Group Chief Executive with the average year on year percentage change across employees of the Group taken as a whole (except where noted).

Comparison of the percentage change in value from 2016 to 2017



■ Peter Harrison
■ Employees of the Group

1. For base salary, employees of the Group are those who were in employment for the full year to 31 December 2017 and represents the average salary increase during 2017.
2. For benefits, employees of the Group are those who were in employment in the UK for the full year to 31 December 2017 and represents the average change in benefits value during 2017.
3. For bonus, employees of the Group are bonus-eligible employees who worked in the Group for all of 2017 and 2016 (see page 77).

The Group Chief Executive received no salary increase in 2017. The salary increase shown reflects the impact of increasing Peter Harrison's salary to £500,000 partway through 2016, from his appointment as Group Chief Executive on 3 April 2016. Salary increases across the Group during 2017 were targeted at employees whose roles had increased in scope materially during the year and those whose fixed pay significantly lagged behind market rates. Particular attention was also given to those on lower salaries, for whom fixed pay forms a greater proportion of total remuneration.

Peter Harrison's annual bonus award for 2017 was 18% higher than for 2016, reflecting the exceptional performance during the year and that he was appointed Group Chief Executive partway through 2016, having previously been an executive Director as Head of Investment. The mean annual bonus award increase for bonus-eligible employees who worked in the Group for all of 2017 and 2016 was 11%, as shown above, and the median was 14%. Individual annual bonus awards for 2017 compared with 2016 varied from an increase in excess of 100% to a reduction of bonus to nil, reflecting our pay for performance philosophy.

The increase in Peter Harrison's benefits reflects the cost of benefits linked to salary, after his salary was increased during 2016, a general increase in the cost of certain benefits and slightly greater private use of a car and driver. The increase for other UK employees reflects a range of factors, in particular a general increase in the cost of certain benefits and the cost of benefits linked to salary.

Gender pay

Schroders was one of the first signatories of the Women in Finance Charter in the UK, as part of our commitment to promote diversity of thought and ensure Schroders is an inclusive place to work. The focus of our commitment is broader than gender and more information on our approach to diversity can be found on page 28.

We originally committed to increase the representation of women in senior management from 25% at the end of 2015 to 30% by the end of 2019. We made good progress and increased female representation to more than 30% for most of 2017, though by the end of 2017 this had fallen below 30% again as a result of minor restructurings within the firm. As a result of the progress made, we increased this target to 33% female representation in senior management by the end of 2019. We have increased female representation on the GMC from 7% to 19% since the end of 2015. Our focus is developing the pipeline of female talent immediately below the GMC, where female representation is currently also 19%.

The data below illustrates the representation issue by looking at the proportion of employees by gender according to quartile pay bands. This is based on hourly fixed pay for each employee, reflecting base salary and cash allowances.

The proportion of female vs male employees according to quartile pay bands

Top quartile of employees based on hourly fixed pay	22% females, 78% males
Second quartile	38% females, 62% males
Third quartile	47% females, 53% males
Bottom quartile	59% females, 41% males
Total workforce	41% females, 59% males

Our analysis of pay levels for comparable roles shows that male and female employees are paid fairly for similar work. However, the lower representation of women at senior levels within the Group, which is an issue across the financial services sector, is reflected in the gender pay gap shown below. This looks across the total workforce and sets out the gender pay gap for both hourly fixed pay, as described above, and total variable pay, consisting of the annual bonus awarded in respect of 2017 plus any other deferred remuneration awards during the year.

		Schroders globally
Hourly fixed pay	The amount by which the male median exceeds the female median, as a % of the male median	31% (2016: 33%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	30% (2016: 31%)
Total variable pay	The amount by which the male median exceeds the female median, as a % of the male median	50% (2016: 59%)
	The amount by which the male mean exceeds the female mean, as a % of the male mean	49% (2016: 66%)
	The proportion of female and male employees who received variable pay	93% of females, 95% of males (2016: 95% / 96%)

These gender pay gaps have narrowed since last year as we have increased female representation at more senior levels but there is still more work to do. More information on our Diversity and Inclusion action plan and on gender pay at Schroders, including our UK disclosures, can be found on our website, schroders.com/inclusion.

Single total remuneration figure for each executive Director (audited)

The total remuneration of each of the executive Directors for the years ended 31 December 2017 and 31 December 2016 is set out below.

£'000	Peter Harrison		Richard Keers		Philip Mallinckrodt		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Base salary	500	468	375	375	64	375	939	1,218
Benefits and allowances	14	12	9	8	21	20	44	40
Retirement benefits	45	45	45	45	8	40	98	130
Total fixed pay	559	525	429	428	93	435	1,081	1,388
Annual bonus award	6,500	5,500	2,750	2,450	-	1,750	9,250	9,700
LTIP vested	-	286	322	-	-	129	322	415
Total variable pay	6,500	5,786	3,072	2,450	-	1,879	9,572	10,115
Total remuneration	7,059	6,311	3,501	2,878	93	2,314	10,653	11,503

Methodology for determining the single total remuneration figure:

Base salary	Represents the value of salary earned and paid during the financial year. As disclosed in the 2016 Annual report on remuneration, the Committee increased Peter Harrison's salary to £500,000 with effect from his appointment as Group Chief Executive on 3 April 2016. This salary is the same as was paid to his predecessor.
Benefits and allowances	Includes one or more of: private healthcare, life assurance, permanent total disability insurance, SIP matching shares, car parking, private use of a company driver and cash in lieu of discontinued benefits.
Retirement benefits - see page 84	Represents the aggregate of contributions to defined contribution pension arrangements and cash in lieu of pension for Peter Harrison and Richard Keers and cash in lieu of pension for Philip Mallinckrodt. The table on page 84 shows how the retirement benefits figures above are comprised for each Director.
Annual bonus award - see pages 81 to 83	Represents the total value of the annual bonus award for performance during the relevant financial year. Page 81 breaks down the bonus into cash paid through the payroll, as well as the upfront fund awards, deferred fund awards and deferred share awards that will be granted in March 2018. Pages 82 and 83 set out the basis on which annual bonus awards for 2017 were determined.
LTIP vested - see page 84	Represents the estimated value that is expected to vest on 1 March 2018 from LTIP awards granted on 10 March 2014. More information on the performance achieved, how vesting will be determined and the value shown is provided on page 84. The comparative value shown for 2016 represents the actual value that vested on 1 March 2017 from LTIP awards granted on 27 March 2013. The 2016 LTIP vested values disclosed last year were estimates, as the Annual Report and Accounts was finalised prior to the vesting date.

For Philip Mallinckrodt, the remuneration reported in the table above was paid for his contribution during 2016 and the period of 2017 that he was an executive Director. His fees as a non-executive Director are reported in the table of non-executive Directors' remuneration on page 85.

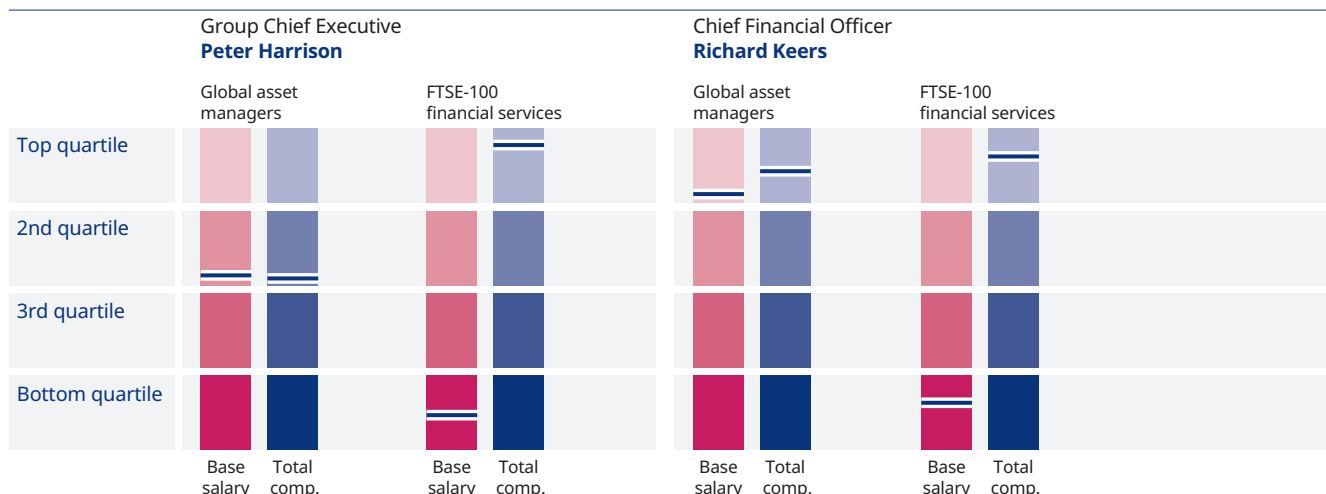
Competitive positioning

We compete for talent in a global marketplace. Most of our key competitors are headquartered outside the UK, particularly in the US, and many are not publicly listed and are therefore subject to lower standards of transparency. It is against this backdrop that the Committee determines both our pay structures and levels of pay, to ensure that we are able to attract, motivate, reward and retain the best talent.

Remuneration levels for employees, including the executive Directors, are reviewed annually and benchmarked by reference to the external market to ensure they remain appropriately competitive. The chart below illustrates the competitive positioning of pay for each executive Director, while the table on the right provides additional commentary on the remuneration benchmarking approach in each case. Total compensation (abbreviated in the chart to total comp.) reflects base salary at the year end, annual bonus award for 2017 and the grant-date face value of any LTIP award granted during the year (see page 86), assuming 50% vesting. The market data used in benchmarking these roles was provided independently by external advisors and reflects competitor pay for 2016, which is the most up-to-date data available, whereas the competitive position shown for Schroders in each case reflects remuneration awarded for 2017.

In considering competitiveness, the Committee focuses on levels of pay for comparable roles at other large international asset management firms, though the benchmark peer group is adjusted for some roles to provide a more appropriate comparison. This benchmarking is used to establish a frame of reference for what competitors are paying comparable roles, rather than as the start point or a primary factor when remuneration decisions are made. As outlined on pages 82 and 83, annual bonus awards are based on the Committee's assessment of the overall performance of the business and of each executive Director. The policy is to aim to pay executive Directors base salaries that are competitive with other large international asset management firms. As a result, it is likely that salaries will be relatively low when compared to other listed financial services firms, as can be seen below for the FTSE-100 financial services firms.

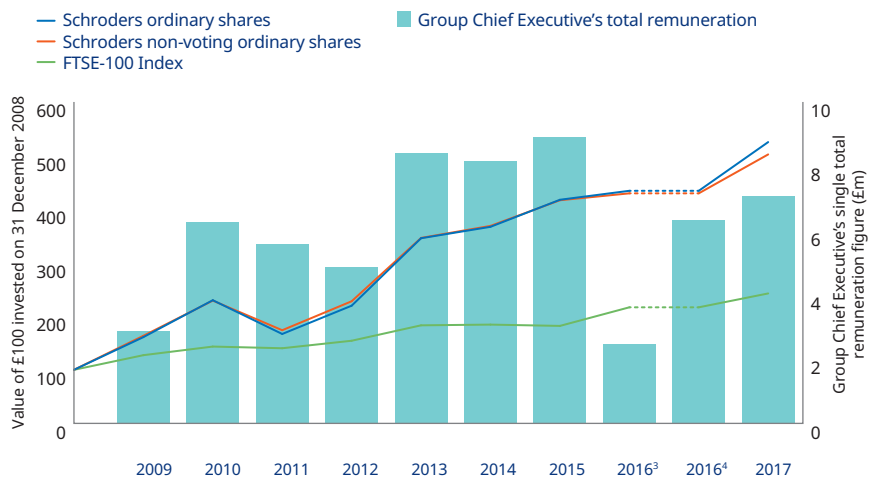
Role	Commentary
Group Chief Executive	Approximately half of the global asset manager comparator roles are from non-listed businesses, including firms owned by a bank or insurance group and privately owned businesses, whereas Schroders is an independent publicly-listed company. Schroders differs from most of the global asset managers in including Wealth Management within the Group Chief Executive's remit, alongside Asset Management. As a result, the Schroders Group Chief Executive role sits amongst the more complex of the roles making up this competitive benchmark.
Chief Financial Officer	The peer group for this role includes large UK-listed insurers in place of bank or insurance-owned asset managers where asset management finance would report into a group finance function. The Schroders Chief Financial Officer has wider responsibilities than the market norm, covering financial management, risk management, capital and treasury, human resources, corporate communications and direct responsibility for a range of operational areas, as well as firm-wide operational oversight.



— Positioning of remuneration at Schroders relative to the market benchmarks

Performance of Schroders shares against the FTSE-100 Index and the Group Chief Executive's total remuneration

The graph on the right compares the total shareholder return of Schroders shares with that of the FTSE-100, of which Schroders is a longstanding constituent. Over the last nine years, the index has returned 143%, compared to a 425% return for Schroders ordinary shares and 402% for Schroders non-voting ordinary shares. This graph also shows the Group Chief Executive's single total remuneration figure over the nine years ended 31 December 2017, for comparison. The table below sets this out in figures, as well as how variable pay plans have paid out each year. It also shows the ratio of those single total remuneration figures to the mean and median total remuneration awarded to employees as a whole and to other members of the GMC.



Financial year	2009	2010	2011	2012	2013	2014	2015	2016 ³	2016 ⁴	2017	
									Michael Dobson	Peter Harrison	
Single total remuneration figure (£'000)	2,867	6,267	5,570	4,870	8,414	8,155	8,905	2,451	6,311	7,059	
Annual bonus award (actual award as a % of nine-year highest bonus) ¹	30%	73%	65%	56%	81%	87%	100%	25%	70%	82%	
LTIP (vesting as a % of maximum) ²	n/a	n/a	n/a	n/a	100%	50%	50%	50%	50%	n/a	
Ratio of single total remuneration figure to employees as a whole ⁵	to employee mean	23 x	37 x	32 x	30 x	45 x	44 x	47 x	13 x	33 x	35 x
	to employee median	44 x	85 x	67 x	60 x	99 x	92 x	93 x	23 x	60 x	64 x
Ratio of single total remuneration figure to GMC members ⁵	to GMC mean	2.0 x	2.5 x	2.3 x	2.8 x	3.5 x	2.9 x	3.3 x	1.3 x	3.3 x	3.3 x
	to GMC median	2.4 x	2.8 x	2.5 x	2.8 x	3.8 x	3.1 x	3.4 x	1.3 x	3.4 x	3.1 x

1. No maximum annual bonus opportunity was in place so each annual bonus award is shown as a percentage of the highest bonus award over the last nine years.
2. The years from 2009 to 2012 are shown as 'n/a' as the LTIP was introduced in May 2010 and the first award vested on 5 March 2014 based on the four-year performance period ending on 31 December 2013. 2017 shows as 'n/a' as Peter Harrison did not receive an LTIP award in 2014 and so has no LTIP due to vest in 2018.
3. The 2016 remuneration for Michael Dobson reflects the actual remuneration that he received for that part of 2016 that he served as Chief Executive.
4. Peter Harrison was appointed Group Chief Executive on 3 April 2016. The 2016 remuneration value above reflects his full-year single total remuneration figure.
5. Restated to reflect actual single total remuneration figures (see page 79).

Variable pay – annual bonus award (audited)

The table below sets out details of how the annual bonus award for each executive Director for performance during 2017 was delivered. These values are reflected in the single total remuneration figure for each executive Director on page 79.

2017 (£'000)	DAP award					Total DAP award	Total annual bonus award	Percentage of total remuneration
	Upfront cash bonus award	Upfront fund award	Deferred fund award ¹	Deferred share award ¹				
Peter Harrison	1,337	1,337	1,913	1,913	5,163	6,500	92%	
Richard Keers	575	575	800	800	2,175	2,750	79%	

1. Deferred DAP awards granted to each executive Director were, in aggregate, reduced by 25% of the face value at grant of any LTIP award granted in 2017 (see page 84).

Upfront fund awards cannot be exercised for six months from grant but are not normally at risk of forfeiture if the holder resigns and leaves the Group. Deferred fund awards normally require the holder to remain in employment for the 3.5 years following grant to vest in full and are available to exercise in three equal instalments after 1.5, 2.5 and 3.5 years from grant. Deferred share awards normally require the holder to remain in employment for the three years following grant to vest in full and are available to exercise in three equal instalments after 1, 2 and 3 years from grant.

Philip Mallinckrodt was not eligible for a bonus in respect of his contribution during the period of 2017 that he was Group Head of Private Assets and Wealth Management (see page 85).









Basis for determining annual bonus awards (audited)

In determining the annual bonus award for the executive Directors, the Committee made an assessment of the overall performance of the business using our key performance indicators, which are aligned to delivering the Group's strategy, as outlined on pages 16 and 17. An assessment of each individual's performance was also made, including business performance within each individual's responsibilities, and the extent to which they have met annual objectives.

Financial factors such as profitability, cost control and investment performance represent the significant majority of measures the Committee considers to ensure that remuneration outcomes are aligned to the value created for shareholders. Both short-term and long-term performance are taken into account. Non-financial factors such as risk management, conduct, employee engagement or achievement of key strategic goals in any year are also considered, although normally have less prominence in determining the annual bonus award.

Based on its assessment of performance, the Committee applied its judgement to determine annual bonus awards, without attaching a weighting to each performance factor or setting a value payable for achievement of each target. The Group Chief Executive's recommendation was taken into account for the Chief Financial Officer. At the Group level, the executive Directors successfully met or exceeded almost all targets.












Group-wide metrics for determining the executive Directors' annual bonus awards:

Criteria	Target	Performance in 2017	Extent to which target has been met	
Trend in profit for the year and appropriate cost control	Ratio of total cost to net income 65%. Total compensation ratio 45% to 49% depending on market conditions.	61% (2016: 64%). 43% (2016: 44%).	The Group has again delivered record financial performance in 2017 with good management control of its cost base.	
Client investment performance*	At least 60% outperformance over 3 years.	74% (2016: 74%).	Investment performance remains strong over one, three and five years.	
Net new business*	Achieve budgeted new business flows.	£9.6bn (2016: £1.1bn).	Net new business was well ahead of budget, with net inflows across all channels and regions, with the exception of North America, where we saw a large outflow from a single client.	
Talent retention* and succession planning	Retention of at least 90% of key talent. Identify and implement succession plans for key employees.	94% retention (2016: 95%).	Retention of key talent remains above target. Succession plans for key employees were reviewed by the Board in September 2017. The new Head of Private Assets was internally appointed.	
Diversity and inclusion	33% female representation within senior management by the end of 2019 (original target was 30% representation).	Exceeded 30% for most of 2017, though ended the year at 29% (2016: 29%).	We exceeded our 30% target for most of 2017 and have increased our target to 33%. At the year end this ratio had fallen to 29%, as a result of minor restructurings within the firm. Improving diversity further remains important.	
Risk management and good conduct	Key issues considered by Audit and Risk Committee.	No significant issues identified during the year.	Regulatory change, especially MiFID II and PRIIPS, has been successfully managed. See also the Audit and Risk Committee Report (page 60) and information on conduct, compliance and risk management in remuneration (page 89).	
Share price performance	Total shareholder returns in excess of that of the FTSE-100 Index.	21%, 43% and 139% return on ordinary shares over one, three and five years versus FTSE-100 returns of 12%, 32% and 57% respectively.	Schroders continues to create value for shareholders over the long term.	
Investment in future growth opportunities	Delivery against strategic priorities.	Good progress continues to be made. The acquisition of Adveq, a high-quality specialist private equity solutions business, accelerated the growth of our Private Assets and Alternatives business and complements existing capabilities.		

* Included in the key performance indicators on pages 16 and 17.

In addition to those Group-wide metrics, the performance factors outlined below, which have not been audited, were considered in determining individual Directors' remuneration.

Individual performance criteria for determining the executive Directors' annual bonus awards:

Executive Director	Criteria	Performance in 2017 and extent to which the Committee judged each performance criterion had been met	
Peter Harrison	Overall performance of the Group	Group performance is outlined on the previous page, significantly ahead of budget, with excellent cost control, despite an acceleration in growth initiatives.	
	Progress in seven identified areas of growth: Asia, North America, Fixed Income, Multi-asset, New Products and Solutions, Technology, and Private Assets and Alternatives	Progress is being made across all of these growth drivers. We have seen good underlying traction in growing our business in North America, including our partnership with Hartford funds. In Asia Pacific we recently received a private fund management licence in China, alongside our existing relationship with the Bank of Communications. We are using data and analytics to gain unique investment insights and to enhance our interactions with clients.	
	Grow our Equities business	Our core Equities business has grown and we are building strong capabilities in Sustainability and Data Insights, which differentiate us from peers. Succession for key roles has been handled well.	
	Grow our Wealth Management business	The acquisition and integration of the wealth management business of C. Hoare & Co. was successfully completed. The Wealth Management business returned to significant growth in 2017, including net inflows of £2.0bn.	
	Retain and develop key talent and ensure succession plans are in place for all key roles	We had only a limited number of regretted leavers in 2017. Staff turnover remains low, achieved in part through an emphasis on a socially progressive approach. There remains further work to be done on planning senior management succession.	
	Review and strengthen product strategy	Our ten strategic capabilities describe what matters most to our clients, distinct from asset class or investment team (see page 13). We launched new strategically important products (see page 14). The new Schroders brand was awarded 'Digital Brand of the Year' at the Funds Europe Awards.	
Richard Keers	Empower data-driven decision making	Revenue reporting was enhanced. New digital business management dashboards have provided greater financial insight and now need increased adoption across the firm.	
	Accurate, appropriate, clear and timely reporting	Positive feedback from the Audit and Risk Committee, external auditors, analysts, shareholders and other industry bodies.	
	Deliver the Global Operations Committee strategy	Strong leadership of the Global Operations Committee. A clear emphasis on collaboration and progression, demonstrating insight and a good grasp of the key issues. The transition to a new investment technology platform is progressing well and will be completed in 2018.	
	Oversee a strong risk and control function	The Group Risk and Capital Committees are operating well under his leadership. No significant issues were reported in the year, with further improvements to internal risk-assessment processes. See the Audit and Risk Committee report from page 56.	
	Cost control and efficiency	Costs have been closely monitored and controlled. A programme of automation and robotics was launched in Spring 2017, freeing up employee resources from straightforward tasks, and will be further developed in 2018.	

 Criteria met  Partially met  Not met

The metrics and targets outlined above and on the previous page represent the most material criteria by which the Group's performance and the performance of the executive Directors were assessed. The other key performance indicators set out in the Strategic report on pages 16 and 17 were taken into account, as these are used to measure our performance over the long term. The Committee members and the Board as a whole also review performance across a broad range of other metrics as part of their normal course of business throughout the year and during the year end process. Performance against many of these metrics is disclosed in the half-year and full-year results announcements and in the Annual Report and Accounts.

Remuneration report continued

Variable pay – determining vesting of prior LTIP awards (audited)

The LTIP awards granted on 10 March 2014, covering the 2014 to 2017 performance period, are expected to vest on 1 March 2018. The criteria for determining the extent of vesting are set out below. The composite index against which earnings per share performance was measured for these awards was set at the time that they were granted, as 60% equities, measured by the Morgan Stanley Capital International (MSCI) All Country Index, and 40% fixed income, measured by the Barclays Capital Global Aggregate Index.

Despite the strong performance of Schroders since awards were granted, only 50% of awards are expected to vest as the very demanding EPS target will not be met.

Performance measure	Maximum % of award	Performance achieved	Vesting % of award
EPS If the growth of adjusted EPS in the fourth year compared to the year prior to grant exceeds the defined composite index by:	50	The four-year growth in the MSCI All Countries Index was 70.1% and in the Barclays Capital Global Aggregate Index was 30.8%. Weighting them 60% and 40% respectively, growth of the composite index was 54.4%. Four-year growth in adjusted EPS was 57.4%, which exceeds the composite index by 3.0% but is insufficient to trigger any vesting.	0
– less than 20%	no vesting		
– equal to 20%	12.5% vests		
– between 20-40%	straight-line basis		
– 40% or greater	50% vests		
NNB cumulative over the four-year performance period:	50	The four-year cumulative NNB from 2014 to 2017 was £48.5 billion, which is sufficient to trigger full vesting of this part of the LTIP award.	50
– less than £15 billion	no vesting		
– equal to £15 billion	12.5% vests		
– between £15-25 billion	straight-line basis		
– £25 billion or greater	50% vests		
Total expected to vest in relation to 2014 to 2017 performance			50

The Audit and Risk Committee independently reviewed key estimates made by management in respect of material provisions and contingent liabilities, to ensure these are reasonable, and this is reflected in these LTIP calculations.

Value at vesting of prior LTIP awards (audited)

The following table shows, for each Director, the estimated value vesting from LTIP awards granted on 10 March 2014, based on the average closing mid-market share price over the three months ended 31 December 2017 and the expected vesting percentage shown above. For each executive Director, the total value that is expected to vest is reflected in the single total remuneration figures on page 79.

Individual	Date of grant	Grant date face value of LTIP award £'000	Expected date of vesting	Estimated total value of LTIP award shares £'000	Proportion expected to vest in relation to 2014-2017 performance	Number of shares expected to vest	Estimated value vesting £'000
Richard Keers	10 March 2014	500	1 March 2018	644	50%	9,293	322
Michael Dobson	10 March 2014	800	1 March 2018	1,031	28%	8,364	290
Philip Mallinckrodt	10 March 2014	500	1 March 2018	608	40%	9,683	241

The proportion expected to vest for Michael Dobson and Philip Mallinckrodt have been reduced pro-rata for the proportion of the performance period that each of them remained an employee of the Group.

Fixed pay – retirement benefits (audited)

The following table gives details of retirement benefits provided to executive Directors for the years ended 31 December 2017 and 31 December 2016. For the executive Directors, the sum of employer contributions and cash in lieu each year is reflected in the single total remuneration figures on page 79. Employer contributions represent contributions paid into defined contribution (DC) pension arrangements during the year and exclude any contributions made by the Directors. There has been no defined benefit (DB) pension accrual since 30 April 2011. Accrued DB pensions are subject to actuarial reduction on early retirement so there is no enhanced benefit entitlement in these circumstances.

£'000	2017 employer contributions	2017 cash in lieu of pension ¹	2017 retirement benefits total	2016 employer contributions	2016 cash in lieu of pension ¹	2016 retirement benefits total	Accrued DB pension at 31 December 2017	Normal retirement age ²
Peter Harrison	10	35	45	20	25	45	–	60
Richard Keers	–	45	45	10	35	45	–	60
Philip Mallinckrodt	–	8	8	–	40	40	77	60

1. Peter Harrison and Richard Keers received a combination of employer contributions to the Group's DC pension arrangement and cash in lieu of pension contributions. Philip Mallinckrodt received cash in lieu of pension during the period when he served as an executive Director.

2. Normal retirement age is the earliest age at which a Director can elect to draw their pension under the rules of the Schroders Retirement Benefits Scheme without the need to seek the consent of the Company or the pension scheme trustee.

Fees from external appointments

The executive Directors are permitted to retain for their own benefit fees they receive from any external non-executive directorships, provided the directorships do not relate to any interest held by the Group. Richard Keers served as a non-executive member of the Franchise Board of Lloyd's throughout 2017, for which he received fees of £77,500, including in respect of his membership and chairmanship of the Franchise Board's audit committee during the year. These fees do not relate to the Group and so are not included in the single total remuneration figures on page 79.

Executive Director board changes in 2017 and treatment of remuneration (audited)

On 1 March 2017, Philip Mallinckrodt relinquished his executive responsibilities, after more than 20 years with Schroders. As disclosed in the 2016 Annual Report and Accounts, he waived his contractual notice period and was not eligible for a bonus in respect of his contribution during the period of 2017 that he was Group Head of Private Assets and Wealth Management. His annual bonus award of £1.75m in respect of his contribution during 2016 was subject to standard deferral, via the ECP awards shown on page 86, and includes malus and clawback terms. As a member of the principal shareholder group, he continues on the Board of the Company as a non-executive Director. Information on his fees and benefits in that role can be found below.

The Committee considered Philip's long service, his contribution to the Group and the significant value created for shareholders. In light of this, the Committee exercised its discretion under the rules of the ECP and LTIP to allow Philip to retain his unvested awards, outlined on pages 87 and 88, when his executive role with the Company came to an end. Once vested, each award will be exercisable within a 12-month period following vesting. These awards remain subject to malus and clawback terms. His unvested ECP awards result from the deferral of bonuses relating to 2016 and prior years. The vesting of LTIP awards remains subject to the satisfaction of the associated performance conditions and these awards have been reduced pro-rata for the proportion of the performance period that he remained an employee of the Group (see page 88).

Non-executive Directors' remuneration (audited)

The total remuneration of each of the non-executive Directors for the years ended 31 December 2017 and 31 December 2016 is set out below.

£'000	2017						2016					
	Basic fee	Committee chairman	Committee member	SID ¹	Taxable benefits	Total	Basic fee	Committee chairman	Committee member	SID ¹	Taxable benefits	Total
Michael Dobson	625	-	-	-	8	633	465	-	-	-	8	473
Robin Buchanan	75	-	40	-	-	115	70	-	40	-	-	110
Rhian Davies	75	25	20	-	-	120	70	17	20	-	-	107
Rakhi Goss-Custard	75	-	-	-	-	75	-	-	-	-	-	-
Lord Howard	75	20	40	15	-	150	70	20	40	10	-	140
Ian King	75	-	9	-	-	84	-	-	-	-	-	-
Philip Mallinckrodt	63	-	-	-	1	64	-	-	-	-	-	-
Nichola Pease	75	-	40	-	-	115	70	-	40	-	-	110
Bruno Schroder	103	-	-	-	3	106	98	-	-	-	2	100

1. Senior Independent Director.

The remuneration reported for Michael Dobson for 2016 was paid for the period that he was Chairman.

Ian King and Rakhi Goss-Custard were appointed to the Board with effect from 1 January 2017 and on 1 March 2017 Philip Mallinckrodt relinquished his executive responsibilities and continued on the Board of the Company as a non-executive Director. On appointment as non-executive Directors their fees were set at the same level as for other non-executive Directors.

The benefits for Michael Dobson are private healthcare and medical benefits for him and his family and occasional private use of a driver. Benefits for Philip Mallinckrodt are private healthcare for part of 2017 under the transitional arrangements after he relinquished his executive responsibilities. Benefits for Bruno Schroder are private healthcare and medical benefits.

Michael Dobson and Philip Mallinckrodt each received an LTIP award on 10 March 2014, when they were in executive roles on the Board. These LTIP awards are expected to vest on 1 March 2018. The estimated value expected to vest to Michael and Philip are £290,000 and £241,000 respectively (see page 84).

Remuneration report continued

Non-executive Directors' fees are as shown below. Board member fees were increased with effect from 1 July 2017 from £70,000 to 80,000, having last been increased in 2011. At the same time, the Senior Independent Director's fee increased from £10,000 to £20,000, having not been increased since it was introduced in 2011.

	£
Chairman	625,000
Board member ¹	80,000
Senior Independent Director	20,000
Audit and Risk Committee Chairman ²	25,000
Audit and Risk Committee member	20,000
Nominations Committee Chairman	nil
Nominations Committee member	nil
Remuneration Committee Chairman ²	20,000
Remuneration Committee member	20,000

1. Bruno Schroder also receives an additional annual fee of £28,000 for services to the Group.

2. In addition to the Committee membership fee.

ECP and LTIP awards granted during 2017 (audited)

The following awards under the ECP were granted to Directors on 6 March 2017 in respect of deferred bonuses for performance during 2016. No further performance conditions need to be met for awards to vest but ECP awards normally require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. ECP fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. ECP share awards were granted as nil-cost options. These awards were included in 2016 in the single total remuneration figures disclosed last year and form part of the prior year value shown in this year's single total remuneration figures on page 79. They are also shown in the tables of Directors' rights under fund and share awards on pages 87 and 88.

Individual	Basis of award granted	Face value at grant (£'000)					Performance conditions
		Fund awards	Share awards	Total ECP award	Share price at grant	Number of shares	
Peter Harrison		1,350	1,350	2,700	£30.71	43,959	Awarded for performance in 2016. No further performance conditions apply.
Richard Keers	Deferral of bonus awarded for performance in 2016	594	594	1,188	£30.71	19,335	
Philip Mallinckrodt		419	419	838	£22.54	18,580	

The following awards under the LTIP were granted to Directors on 6 March 2017 as nil-cost options. These awards do not appear in the single total remuneration figure on page 79 as they are subject to performance conditions and will not vest until 2021. They are shown in the table of Directors' rights under share awards on page 88.

Individual	Basis of award granted as % of salary	Vesting maximum as % of face value	% of face value that would vest at threshold ¹	Face value at grant (£'000)	Share price at grant	Number of shares	End of performance period
Peter Harrison	120	100	25	600	£30.71	19,537	31 December 2020
Richard Keers	107	100	25	400	£30.71	13,025	31 December 2020

1. Performance under both the EPS and NNB performance measures at the threshold level to achieve non-zero vesting.

All ECP share awards and LTIP awards were granted over ordinary shares, except for the award granted to Philip Mallinckrodt, which was granted over non-voting ordinary shares. The share price used to determine the number of shares under each ECP share award and LTIP award is the mid-market closing share price on the last trading day prior to the date of grant and this is the price used to calculate the face value shown. The vesting of the LTIP awards is subject to the performance conditions set out on page 84. The composite index against which EPS performance will be measured for these awards is as follows:

Index	Weighting %
Morgan Stanley Capital International All Countries Asia Pacific	15.0
Morgan Stanley Capital International Emerging Markets	7.5
Morgan Stanley Capital International All Countries World	15.0
Morgan Stanley Capital International Europe	5.0
FTSE All Share	7.5
Barclays Capital Global Aggregate	50.0

Personal shareholding policy (audited)

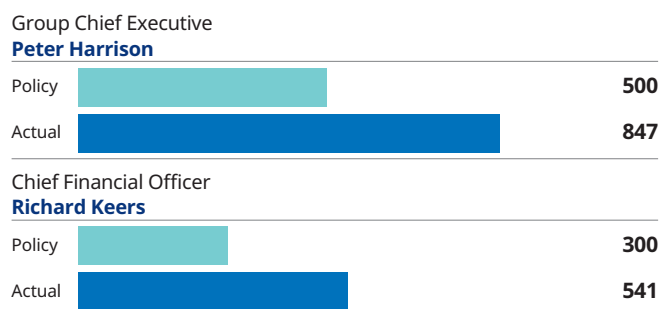
To align the interests of senior management with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300% of base salary or, in the case of the Group Chief Executive, 500% of base salary. Each executive Director and GMC member undertakes not to sell any Schroders shares until their share ownership target has been reached.

For these purposes, rights to shares include the estimated after-tax value of unvested ECP or EIP share awards (shown as 'unvested ECP or EIP awards' on page 88), LTIP awards expected to vest on 1 March 2018 and DAP share awards in respect of performance in 2017 (see page 81) but do not include other unvested rights to shares from LTIP awards, as these are subject to performance conditions.

Each executive Director had achieved the current shareholding targets as at 27 February 2018, based upon the mid-market closing share price on that date. At this share price, a 10% share price movement equates to a change in the value of these shareholdings of £424,000 for the Group Chief Executive and £203,000 for the Chief Financial Officer.

The chart below compares the value of each executive Director's shareholdings for these purposes as at 27 February 2018 with the shareholding required under the personal shareholding policy, as a percentage of salary.

Value of shareholding vs shareholding policy (% of salary)



Directors' rights under fund and share awards and Directors' share interests

This section outlines Directors' rights at 31 December 2017 from fund and share awards granted under the Group's deferred remuneration plans. It goes on to set out the total interests in shares of the Directors and their connected persons at 31 December 2017.

Directors' rights under fund awards (audited)

Directors had the following rights under fund awards, based on the award values at grant:

		Unvested ECP awards £'000	Vested ECP awards £'000	Total £'000
Peter Harrison	At 31 December 2016	2,650	-	2,650
	Granted	1,350	-	1,350
	Vested	(725)	725	-
	Exercised	-	(725)	(725)
	At 31 December 2017	3,275	-	3,275
Richard Keers	At 31 December 2016	1,419	-	1,419
	Granted	594	-	594
	Vested	(313)	313	-
	Exercised	-	(313)	(313)
	At 31 December 2017	1,700	-	1,700
Michael Dobson	At 31 December 2016	5,144	-	5,144
	Vested	(1,544)	1,544	-
	Exercised	-	(1,544)	(1,544)
	At 31 December 2017	3,600	-	3,600
Philip Mallinckrodt	At 31 December 2016	1,306	381	1,687
	Granted	419	-	419
	Vested	(400)	400	-
	Exercised	-	(244)	(244)
	At 31 December 2017	1,325	537	1,862

Remuneration report continued

Directors' rights under share awards (audited)

Directors had the following rights to shares under the Group's deferred remuneration plans, in the form of nil-cost options.

		Unvested LTIP awards ¹	Unvested ECP or EIP awards ²	Vested ECP, EIP or LTIP awards	Total
Peter Harrison (Ordinary shares)	At 31 December 2016	59,410	125,153	–	184,563
	Granted	19,537	43,959	–	63,496
	Dividend-equivalent accrual	–	4,189	962	5,151
	Vested	(9,389)	(31,604)	40,993	–
	Lapsed where LTIP conditions were not met	(9,390)	–	–	(9,390)
	Exercised	–	–	(9,389)	(9,389)
	At 31 December 2017	60,168	141,697	32,566	234,431
Richard Keers (Ordinary shares)	At 31 December 2016	42,713	55,417	21,136	119,266
	Granted	13,025	19,335	–	32,360
	Dividend-equivalent accrual	–	1,827	451	2,278
	Vested	–	(14,781)	14,781	–
	Exercised	–	–	(21,136)	(21,136)
	At 31 December 2017	55,738	61,798	15,232	132,768
Michael Dobson (Ordinary shares)	At 31 December 2016	43,733	197,537	170,169	411,439
	Dividend-equivalent accrual	–	4,038	7,165	11,203
	Vested	(9,536)	(64,990)	74,526	–
	Lapsed where LTIP conditions were not met	(9,536)	–	–	(9,536)
	Exercised	–	–	(9,536)	(9,536)
	At 31 December 2017	24,661	136,585	242,324	403,570
Philip Mallinckrodt (Non-voting ordinary shares)	At 31 December 2016	67,237	68,383	212,081	347,701
	Granted	–	18,580	–	18,580
	Dividend-equivalent accrual	–	2,618	8,735	11,353
	Vested	(5,793)	(24,790)	30,583	–
	Lapsed where LTIP conditions were not met	(5,794)	–	–	(5,794)
	Exercised	–	–	(29,451)	(29,451)
	Lapsed due to LTIP pro-rating on end of employment	(23,072)	–	–	(23,072)
At 31 December 2017	32,578	64,791	221,948	319,317	

1. These awards will only vest to the extent that the relevant performance conditions are met. Includes LTIP awards granted on 10 March 2014, which were unvested as at 31 December 2017. These awards are expected to partially vest on 1 March 2018 (see page 84) and any balance will lapse.

2. No performance conditions apply for these awards. Although executive Directors are not eligible to receive EIP awards, Peter Harrison received an EIP award in December 2013, prior to his appointment as an executive Director in May 2014.

During the year, the aggregate gain on nil-cost options for Peter Harrison was £295,000, for Richard Keers was £660,000, for Michael Dobson was £302,000 and for Philip Mallinckrodt was £675,000. These related to awards settled in shares.

Payments to former Directors (audited)

Massimo Tosato stepped down from the Board and ceased to be an employee of Schroders at the end of 2016. As disclosed in the 2016 Remuneration report, the Committee exercised its discretion at that time to allow him to retain his unvested LTIP awards. The LTIP awards remained subject to performance conditions and in addition those awards have been reduced pro-rata for the proportion of the performance period that he remained an employee of the Group. The value that vested on 2 March 2017 from the LTIP award granted to Massimo Tosato on 27 March 2013 was £143,000 after pro-rating. He was also granted awards in 2014 and 2015, which are due to vest in future years.

Directors' share interests (audited)

The Directors and their connected persons had the following interests in shares in the Company at 31 December 2017:

	Number of shares at 31 December 2017	
	Ordinary shares	Non-voting ordinary shares
Executive Directors		
Peter Harrison	5,425	-
Richard Keers	455	-
Non-executive Directors		
Michael Dobson	140,191	187,821
Robin Buchanan	-	9,839
Rhian Davies	-	1,000
Rakhi Goss-Custard	669	-
Lord Howard of Penrith	-	5,000
Ian King	-	2,641
Philip Mallinckrodt ¹	80,985,757	6,343,553
Nichola Pease	30	951
Bruno Schroder ¹	13,881,416	1,482,417

1. The interests of Philip Mallinckrodt and Bruno Schroder set out above include their beneficial interests (and those of their connected persons) in their respective capacities as members of a class of potential discretionary beneficiaries under certain settlements made by members of the Schroder family.

Between 31 December 2017 and 27 February 2018, the only movements in the Directors' share interests were the acquisition under the SIP of 15 ordinary shares by Peter Harrison, 14 ordinary shares by Richard Keers and 4 ordinary shares by a connected person of Nichola Pease who is an employee of Schroders.

Conduct, compliance and risk management in remuneration

Schroders' core values are excellence, innovation, teamwork, passion and integrity. We expand on these in our guiding principles, to more clearly articulate the behaviours that we expect from our employees. Pages 28 and 29 provide more information on these and other key elements of our people strategy.

Performance management and remuneration are important tools to reinforce expected standards of behaviour. During the annual performance appraisal, line managers assess each employee's behaviours, to identify those whose behaviour exemplifies our values as well as any employees whose behaviour falls short of the standards that we expect. To drive positive change and reinforce those behavioural expectations, we also operate a global employee recognition scheme, which provides an opportunity to recognise employees who champion our values.

The Group's control functions independently review potential conduct or cultural issues, to identify any instances where performance or behaviours have fallen short of our expectations. Any issues identified in this way are fed into the performance appraisal and compensation review processes, providing a further opportunity to ensure that attitudes to risk and compliance and behaviours in line with our values are reflected in the determination or allocation of the bonus pool and in individual employee performance ratings and remuneration outcomes.

We identify employees whose professional activities can have a particular risk impact on the Group, or on certain regulated subsidiaries. Our approach to identifying these MRTs takes account of the different regulatory requirements and guidance that apply across the Group. Our MRTs are subject to enhanced scrutiny and oversight, including enhanced control function oversight of their activities and direct oversight of their remuneration by the Committee. Some MRTs, specifically those identified under the UCITS Directive or AIFMD, are subject to higher levels of bonus deferral and a higher proportion of remuneration in fund awards, creating greater alignment with clients and shareholders (see page 62).

To ensure the Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Committee serves on the Audit and Risk Committee. The Committee also receives reports from the heads of Risk, Legal and Compliance as part of its consideration of remuneration proposals.

The Committee reviewed the Group's regulatory disclosures, in the context of the applicable FCA and PRA requirements. The remuneration disclosures required under the Capital Requirements Directive are incorporated into the Group's Pillar 3 disclosures and are available at schroders.com/ir. Other regulatory remuneration disclosures can be found at schroders.com/remuneration-disclosures.

Implementation of remuneration policy for 2018

Basis for determining executive Directors' annual bonus awards for performance in 2018

Executive Directors' annual bonus awards for performance in 2018 will be based on broadly the same performance metrics as were considered for 2017 (see pages 82 and 83), including ESG factors. The process to determine awards will be unchanged. Targets are commercially sensitive and so both the targets and performance against those targets will be disclosed retrospectively in the 2018 Annual report on remuneration.

The Committee is satisfied that the Directors' remuneration policy and its implementation do not raise ESG risks by inadvertently motivating the wrong behaviours in the executive Directors.

LTIP awards to be granted in 2018

In accordance with the Directors' remuneration policy, the Committee intends to grant LTIP awards over shares with the following values to the executive Directors in March 2018:

Director	LTIP face value at grant
Peter Harrison	£600,000
Richard Keers	£400,000

The vesting of these awards will be based on EPS and NNB performance conditions and targets as outlined on page 84. The Committee has reviewed the make-up of Schroders AUM at 31 December 2017 to determine the indices and weightings that will make up the composite index against which EPS performance will be measured, as a proxy for the market movement of Schroders AUM. For awards to be granted in March 2018, the following weighted basket of indices will be used:

Index	Weighting %
Morgan Stanley Capital International All Countries Asia Pacific	15.0
Morgan Stanley Capital International Emerging Markets	7.5
Morgan Stanley Capital International All Countries World	15.0
Morgan Stanley Capital International Europe	7.5
FTSE All Share	5.0
Barclays Capital Global Aggregate	50.0

By Order of the Board.

Lord Howard of Penrith

Chairman of the Remuneration Committee

28 February 2018

Directors' report

The information contained in the sections of this Annual Report and Accounts identified below forms part of this Directors' report:

- Strategic report
- Board of Directors
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report
- The Statement of Directors' responsibilities.

Share capital

Schroders has developed under stable ownership for more than 200 years and has been a public company whose ordinary shares have been listed on the London Stock Exchange since 1959. The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. The ordinary shares have a premium listing on the London Stock Exchange and the non-voting ordinary shares have a standard listing on the London Stock Exchange.

226,022,400 ordinary shares (80% of the total issued share capital) were in issue throughout the year. The Company has no authority to issue or buy back any ordinary shares. Each ordinary share carries the right to attend and vote at general meetings of the Company. 56,739,223 non-voting ordinary shares (20% of the total issued share capital) were in issue at the beginning of 2017. No shares were held in treasury.

The non-voting ordinary shares were created in 1986 to facilitate the operation of an employee share plan without diluting the voting rights of ordinary shareholders. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not provide the right to attend and vote at general meetings of the Company and that, on a capitalisation issue, they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting ordinary shares were created the ratio of ordinary shares to non-voting ordinary shares was 4:1. The Company has at times issued non-voting ordinary shares, principally in connection with the Group's employee share plans or as consideration for an acquisition. The Company has not intended and does not intend to increase the issued non-voting ordinary share capital over the medium term and therefore has, at times, bought back non-voting ordinary shares.

Following the acquisition of Benchmark Capital in December 2016 for which Schroders plc issued 233,623 non-voting ordinary shares in part consideration, the Company entered into a share buy-back programme during 2017 to repurchase 233,623 non-voting ordinary shares.

The Company completed the share buy-back programme in March 2017, purchasing 233,623 shares, at a cost of £5.4 million, representing 0.4% of the issued non-voting ordinary share capital. Of the shares repurchased, all were cancelled immediately, restoring the initial ratio of ordinary shares to non-voting ordinary shares to 4:1.

At the 2017 AGM shareholders renewed the Directors' authority to issue 5,000,000 non-voting ordinary shares in order to provide the Directors with the flexibility to issue non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares. Shareholders also gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares, which will expire at the 2018 AGM. Renewal of these authorities will be sought at the 2018 AGM which will be held at 11.30 a.m. on 26 April 2018.

Under the terms of the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust, ordinary and non-voting ordinary shares are held on trust on behalf of employee share plan participants. The trustees of these trusts may exercise the voting rights in any way they think fit. In doing so, they may consider the financial and non-financial interests of the beneficiaries and their dependents. As at 27 February 2018, being the latest practicable date before the publication of this Annual Report and Accounts, the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust together held 8,748,057 ordinary shares and 319,317 non-voting ordinary shares.

Under the terms of the Share Incentive Plan, as at 27 February 2018, 616,602 ordinary shares were held in trust on behalf of plan participants. At the participants' direction, the trustees can exercise the voting rights over ordinary shares in respect of participant share entitlements.

There are no restrictions on the transfer of the Company's shares save for:

- Restrictions imposed by laws and regulations;
- Restrictions on the transfer of shares imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case after a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- Restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders that may restrict the transfer of securities or voting rights.

Member	Class of shares	No. of voting rights held	% of voting rights held
Vincitas Limited ¹	Ordinary	60,724,609	26.87
Veritas Limited ¹	Ordinary	36,795,041	16.28
Flavida Limited ²	Ordinary	60,951,886	26.97
Fervida Limited ²	Ordinary	39,724,396	17.58
Harris Associates L.P. ³	Ordinary	11,443,978	5.06
Lindsell Train Limited ³	Ordinary	11,312,070	5.01

- Vincitas Limited and Veritas Limited are trustee companies which act as trustees of certain settlements made by members of the Schroder family. Vincitas Limited and Veritas Limited are party to the Relationship Agreement.
- The interests of Flavida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited is interested as trustee. Flavida Limited is party to the Relationship Agreement. The interests of Fervida Limited include interests in voting rights in respect of all the shares in which Veritas Limited is interested as trustee. Fervida Limited is party to the Relationship Agreement.
- Harris Associates L.P. and Lindsell Train Limited are not party to the Relationship Agreement.

Substantial shareholdings

As at 31 December 2017, the Company had received notifications, in accordance with rule 5.1.2R of the Disclosure Guidance and Transparency Rules, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table above. There had been no changes to these notifications or additional notifications as at the date of this report.

Relationship Agreement

The Schroder family interests are in shares owned directly or indirectly by trustee companies which act as trustees of various trusts settled by family individuals, in shares owned by family individuals, and in shares owned by a family charity. The trustee holdings include the interests (43.15%) held by Vincitas Limited and Veritas Limited, as disclosed in the table above, and further interests (1.6%) held by two other trustee companies which are not required to be disclosed under the Disclosure Guidance and Transparency Rules.

If aggregated, the total interests covered by the Relationship Agreement including shares held by the trustee companies, individuals and the family charity amount to 108,323,711 of the Company's ordinary shares (47.93%).

Following changes made to the UK Listing Rules in May 2014, companies with a shareholder or shareholders who could, when acting in concert, exercise 30% or more of the voting rights of a company at a general meeting, are required to enter into a binding agreement with that shareholder or shareholders. This is intended to ensure that the parties to the agreement comply with certain independence provisions as set out in the Listing Rules. Accordingly, on 14 November 2014, the Company entered into such an agreement (the 'Relationship Agreement') with a number of shareholders who own or control the ordinary shares (and associated voting rights) referred to above.

In accordance with Listing Rule 9.8.4(14), the Board confirms that for the year ended 31 December 2017:

- the Company has complied with the independence provisions included in the Relationship Agreement; and
- so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by the other parties to the Relationship Agreement and their associates.

Dividends

The Directors are recommending a final dividend of 79 pence per share which, if approved by shareholders at the AGM, will be paid on 3 May 2018 to shareholders on the register of members at close of business on 23 March 2018. Details on the Company's dividend policy are set out on page 27. Dividends payable in respect of the year, subject to this approval, along with prior year payments, are set out below.

Ordinary shares and non-voting ordinary shares	2017		2016	
	pence	£m	pence	£m
Interim	34.0	92.9	29.0	78.9
Final	79.0*	217.0	64.0	174.7
Total	113.0	309.9	93.0	253.6

* Subject to approval by shareholders at the 2018 AGM.

The Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust have waived their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2017 and future periods. See notes 8 and 22 to the financial statements.

Corporate Responsibility

Details of the Company's employment practices, including diversity and employee involvement can be found in the Strategic report from page 28.

We are committed to minimising the environmental impact of our operations and to delivering continuous improvement in our environmental performance. See page 32 for more details on our total CO₂e emissions data.

Indemnities and Insurance

At the 2007 AGM, shareholders authorised the Company to provide indemnities to, and to fund defence costs for, Directors in certain circumstances. All Directors at the time shareholder approval was received were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that, on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third party liabilities that they may incur as a result of their service on the Board. All Directors' indemnities were in place during the year and remain in force.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

As part of the integration of Cazenove Capital, the Cazenove Capital Management Limited Pension Scheme was merged with the Schroders Retirement Benefits Scheme with effect from 31 December 2014. Pursuant to that merger, a qualifying pension scheme indemnity (as defined in section 235 of the Companies Act 2006) provided by Schroders plc for the benefit of the Directors of Cazenove Capital Management Pension Trustee Limited, a subsidiary of the Company, was put in place at that time and remains in force.

This indemnity provision covers, to the extent permitted by law, certain losses or liabilities incurred by the Directors of Cazenove Capital Management Pension Trustee Limited in connection with that company's activities as trustee of the Cazenove Capital Management Limited Pension Scheme.

Directors' conflicts of interest

The Company has procedures in place to identify, authorise and manage conflicts of interest, including of Directors of the Company, and they have operated effectively during the year. In circumstances where a potential conflict arises, the Board (excluding the Director concerned) will consider the situation and either authorise the arrangement in accordance with the Companies Act 2006 and the Company's Articles of Association or take other appropriate action.

All potential conflicts authorised by the Board are recorded in a conflicts register which is maintained by the Company Secretary and reviewed by the Board on an annual basis. Directors have a continuing duty to update the Board with any changes to their conflicts of interest.

Change of control

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's employee share schemes may cause awards granted to employees under such schemes to vest on a change of control.

The Company is not party to any significant agreements that would take effect, alter or terminate on a change of control of the Company.

Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2016: nil) and there is no intention to make or incur any in the current year.

UK Listing Authority Listing Rules (LR) – compliance with LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Schroders. The table below sets out the location of the disclosures for those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(12) Details of any arrangements under which a shareholder has waived or agreed to waive any dividends.	See page 92
(13) Where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	See pages 92, 107 and 129
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and, as far as it is aware, the other parties to the agreement have, complied with the provisions in the agreement.	See page 92

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In addition, the financial statements include information on the Group's approach to managing its capital and financial risk; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the Annual Report and Accounts.

In addition, the Directors have assessed the Company's viability over a period of five years. The results of this assessment are set out on page 36.

By Order of the Board.

Graham Staples

Company Secretary

28 February 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make estimates and judgements that are reasonable and prudent.
- State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FCA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and the Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

Each of the Directors, whose name and functions are listed in the Board of Directors section of this Annual Report and Accounts, confirms that, to the best of each person's knowledge and belief:

- The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group.
- The Directors' report contained in this Annual Report and Accounts which comprises the sections described on page 91, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face.
- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.
- The Director has taken all the steps that ought to have been taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In addition, each of the Directors considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the audited financial information on the website at schroders.com.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward-looking statements

This Annual Report and Accounts and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Company and the Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'confident', 'aims', 'will have', 'will be', 'will ensure', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this Annual Report and Accounts. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts should be construed as a forecast, estimate or projection of future financial performance.

Financial statements contents

Consolidated financial statements

Consolidated income statement	96
Consolidated statement of comprehensive income	96
Consolidated statement of financial position	97
Consolidated statement of changes in equity	98
Consolidated cash flow statement	99

Notes to the accounts

1. Segmental reporting	100
2. Revenue	103
3. Cost of sales	103
4. Net gains on financial instruments and other income	104
5. Operating expenses	105
6. Tax expense	106
7. Earnings per share	107
8. Dividends	107
9. Trade and other receivables	108
10. Financial assets	108
11. Associates and joint ventures	111
12. Property, plant and equipment	113
13. Goodwill and intangible assets	114
14. Deferred tax	115
15. Unit-linked liabilities and assets backing unit-linked liabilities	116
16. Trade and other payables	117
17. Financial liabilities	118
18. Provisions and contingent liabilities	119
19. Financial instrument risk management	121
20. Derivative contracts	126
21. Share capital and share premium	128
22. Own shares	129
23. Reconciliation of net cash from operating activities	130
24. Commitments	131
25. Retirement benefit obligations	132
26. Share-based payments	135
27. Related party transactions	138
28. Interests in structured entities	139
29. Business combinations	141
Presentation of the financial statements	143

Schroders plc financial statements

Schroders plc – Statement of financial position	145
Schroders plc – Statement of changes in equity	146
Schroders plc – Cash flow statement	147

Schroders plc – Notes to the accounts

30. Significant accounting policies	147
31. Expenses and other disclosures	148
32. Trade and other receivables	148
33. Trade and other payables	148
34. Deferred tax	149
35. Financial instrument risk management	149
36. Own shares	149
37. Related party transactions	150
38. Subsidiaries and other related undertakings	151
Independent auditors' report	160

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017			2016		
		Before exceptional items £m	Exceptional items ³ £m	Total £m	Before exceptional items £m	Exceptional items ³ £m	Total £m
Revenue	2	2,511.7	–	2,511.7	2,144.9	–	2,144.9
Cost of sales	3	(501.5)	–	(501.5)	(432.1)	–	(432.1)
Net operating revenue		2,010.2	–	2,010.2	1,712.8	–	1,712.8
Net gains on financial instruments and other income	4	35.2	(3.5)	31.7	58.8	(1.4)	57.4
Share of profit of associates and joint ventures	11	23.5	(1.8)	21.7	21.5	(2.0)	19.5
Net income		2,068.9	(5.3)	2,063.6	1,793.1	(3.4)	1,789.7
Operating expenses	5	(1,268.6)	(34.8)	(1,303.4)	(1,148.4)	(23.2)	(1,171.6)
Profit before tax		800.3	(40.1)	760.2	644.7	(26.6)	618.1
Tax	6(a)	(171.6)	5.8	(165.8)	(132.4)	4.5	(127.9)
Profit after tax¹		628.7	(34.3)	594.4	512.3	(22.1)	490.2
Earnings per share							
Basic	7	226.9p	(11.6)p	215.3p	186.3p	(8.0)p	178.3p
Diluted	7	222.4p	(11.4)p	211.0p	182.4p	(7.9)p	174.5p
Dividends per share²	8			98.0p			87.0p

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit after tax		594.4	490.2
Items that may be reclassified to the income statement on fulfilment of specific conditions:			
Net exchange differences on translation of foreign operations after hedging		(34.4)	101.3
Net fair value movement arising from available-for-sale financial assets	4	(8.9)	19.3
Net fair value movement arising from available-for-sale financial assets held by associates	11	(1.6)	(4.8)
Tax on items taken directly to other comprehensive income	6(b)	0.7	(2.9)
		(44.2)	112.9
Items reclassified to the income statement:			
Net realised gains on disposal of available-for-sale financial assets	4	(3.3)	(5.2)
Net realised gains on disposal of available-for-sale financial assets held by associates	11	(1.4)	(1.4)
		(4.7)	(6.6)
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit pension schemes	25	42.3	(2.0)
Tax on items taken directly to other comprehensive income	6(b)	(7.4)	(0.1)
		34.9	(2.1)
Other comprehensive (losses)/income for the year net of tax¹		(14.0)	104.2
Total comprehensive income for the year net of tax¹		580.4	594.4

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.

2. Prior year final dividend and current year interim dividend paid during the year.

3. See note 1(b) for a definition and further details of exceptional items.

Consolidated statement of financial position

at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Cash and cash equivalents		2,947.0	3,318.9
Trade and other receivables	9	739.0	648.2
Financial assets	10	3,480.8	3,105.0
Associates and joint ventures	11	143.9	125.0
Property, plant and equipment	12	162.8	66.4
Goodwill and intangible assets	13	825.8	607.1
Deferred tax	14	39.3	66.0
Retirement benefit scheme surplus	25	162.9	118.2
		8,501.5	8,054.8
Assets backing unit-linked liabilities			
Cash and cash equivalents		572.5	466.7
Financial assets		13,413.9	12,460.9
	15	13,986.4	12,927.6
Total assets		22,487.9	20,982.4
Liabilities			
Trade and other payables	16	937.7	883.3
Financial liabilities	17	3,955.3	3,902.0
Current tax		78.1	71.8
Provisions	18	44.0	33.1
Deferred tax	14	0.1	0.2
Retirement benefit scheme deficits		15.3	11.6
		5,030.5	4,902.0
Unit-linked liabilities	15	13,986.4	12,927.6
Total liabilities		19,016.9	17,829.6
Net assets		3,471.0	3,152.8
Total equity¹		3,471.0	3,152.8

1. Non-controlling interest is presented in the Consolidated statement of changes in equity.

The financial statements were approved by the Board of Directors on 28 February 2018 and signed on its behalf by:

Richard Keers

Director

Bruno Schroder

Director

Consolidated statement of changes in equity

for the year ended 31 December 2017

Notes	Attributable to owners of the parent										
	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m	
At 1 January 2017	282.7	124.2	(163.6)	187.7	50.1	19.3	2,638.0	3,138.4	14.4	3,152.8	
Profit for the year	-	-	-	-	21.7	-	571.3	593.0	1.4	594.4	
Other comprehensive (losses)/income ¹	-	-	-	(34.3)	(3.0)	(11.5)	34.9	(13.9)	(0.1)	(14.0)	
Total comprehensive (losses)/income for the year	-	-	-	(34.3)	18.7	(11.5)	606.2	579.1	1.3	580.4	
Shares cancelled	21	(0.2)	-	5.4	-	-	(5.2)	-	-	-	
Own shares purchased	22	-	-	(56.6)	-	-	-	(56.6)	-	(56.6)	
Share-based payments	26	-	-	-	-	-	60.5	60.5	-	60.5	
Tax in respect of share schemes	6(c)	-	-	-	-	-	5.2	5.2	-	5.2	
Other movements		-	-	-	(0.3)	-	-	(0.3)	0.1	(0.2)	
Dividends	8	-	-	-	-	-	(267.6)	(267.6)	(3.5)	(271.1)	
Transactions with shareholders		(0.2)	-	(51.2)	-	(0.3)	(207.1)	(258.8)	(3.4)	(262.2)	
Transfers		-	-	52.5	-	(2.7)	4.7	(54.5)	-	-	
At 31 December 2017		282.5	124.2	(162.3)	153.4	65.8	12.5	2,982.6	3,458.7	12.3	3,471.0

Notes	Attributable to owners of the parent										
	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m	
At 1 January 2016	282.5	119.4	(175.5)	86.8	45.7	8.1	2,428.6	2,795.6	-	2,795.6	
Profit for the year	-	-	-	-	19.5	-	470.2	489.7	0.5	490.2	
Other comprehensive income/(losses) ¹	-	-	-	100.9	(6.2)	11.2	(2.1)	103.8	0.4	104.2	
Total comprehensive income for the year	-	-	-	100.9	13.3	11.2	468.1	593.5	0.9	594.4	
Shares issued	21	0.2	4.8	-	-	-	-	5.0	-	5.0	
Own shares purchased	22	-	-	(59.1)	-	-	-	(59.1)	-	(59.1)	
Share-based payments	26	-	-	-	-	-	51.5	51.5	-	51.5	
Tax in respect of share schemes	6(c)	-	-	-	-	-	0.9	0.9	-	0.9	
Other movements		-	-	-	(0.9)	-	(11.5)	(12.4)	13.5	1.1	
Dividends	8	-	-	-	-	-	(236.6)	(236.6)	-	(236.6)	
Transactions with shareholders		0.2	4.8	(59.1)	-	(0.9)	(195.7)	(250.7)	13.5	(237.2)	
Transfers		-	-	71.0	-	(8.0)	(63.0)	-	-	-	
At 31 December 2016		282.7	124.2	(163.6)	187.7	50.1	19.3	2,638.0	3,138.4	14.4	3,152.8

1. Other comprehensive (losses)/income reported in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive (losses)/income reported in the associates and joint ventures reserve and the fair value reserve represent post-tax fair value movements on available-for-sale assets held. Other comprehensive income/(losses) reported in the profit and loss reserve represent post-tax actuarial gains/(losses).

Consolidated cash flow statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Net cash from operating activities	23	585.1	563.7
Cash flows from investing activities			
Net acquisition of businesses and associates		(185.1)	(84.8)
Net acquisition of property, plant and equipment and intangible assets		(172.6)	(65.2)
Acquisition of financial assets		(2,004.5)	(1,398.6)
Disposal of financial assets		1,853.5	1,215.6
Non-banking interest received		26.1	29.4
Distributions received from associates and joint ventures	11	2.7	8.7
Net cash used in investing activities		(479.9)	(294.9)
Cash flows from financing activities			
Acquisition of own shares	22	(56.6)	(59.1)
Dividends paid	8	(271.1)	(236.6)
Other flows		(0.9)	(0.3)
Net cash used in financing activities		(328.6)	(296.0)
Net decrease in cash and cash equivalents		(223.4)	(27.2)
Opening cash and cash equivalents		3,785.6	3,622.1
Net decrease in cash and cash equivalents		(223.4)	(27.2)
Effect of exchange rate changes		(42.7)	190.7
Closing cash and cash equivalents		3,519.5	3,785.6
Closing cash and cash equivalents consists of:			
Cash and cash equivalents available for use by the Group		2,909.8	3,286.9
Cash held in consolidated pooled investment vehicles		37.2	32.0
Cash and cash equivalents presented within assets		2,947.0	3,318.9
Cash and cash equivalents presented within assets backing unit-linked liabilities		572.5	466.7
Closing total cash and cash equivalents		3,519.5	3,785.6

Notes to the accounts

1. Segmental reporting

(a) Operating segments

The Group has three business segments: Asset Management, Wealth Management and the Group segment. The Asset Management segment principally comprises investment management including advisory services in respect of equity, fixed income, multi-asset, real estate and private assets and alternatives products. The Wealth Management segment principally comprises investment management, wealth planning and banking services provided to high net worth individuals and charities within the Cazenove Capital business and the Benchmark Capital business which includes an independent financial adviser network. The Group segment principally comprises the Group's investment capital and treasury management activities, corporate development and strategy activities and the management costs associated with governance and corporate management.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision maker, the Group Chief Executive.

Operating expenses include an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in particular business areas. This allocation provides management information on the business performance to manage and control expenditure.

	Asset Management £m	Wealth Management £m	Group £m	Total £m
Year ended 31 December 2017				
Fee income	2,223.1	256.3	–	2,479.4
Wealth Management interest income earned	–	32.3	–	32.3
Revenue	2,223.1	288.6	–	2,511.7
Fee expense	(479.8)	(10.8)	–	(490.6)
Wealth Management interest expense incurred	–	(10.9)	–	(10.9)
Cost of sales	(479.8)	(21.7)	–	(501.5)
Net operating revenue	1,743.3	266.9	–	2,010.2
Net (losses)/gains on financial instruments and other income	(6.2)	6.3	35.1	35.2
Share of profit of associates and joint ventures	20.8	0.1	2.6	23.5
Net income	1,757.9	273.3	37.7	2,068.9
Operating expenses	(1,052.0)	(183.0)	(33.6)	(1,268.6)
Profit before tax and exceptional items	705.9	90.3	4.1	800.3
Year ended 31 December 2016				
Fee income	1,902.7	210.6	–	2,113.3
Wealth Management interest income earned	–	31.6	–	31.6
Revenue	1,902.7	242.2	–	2,144.9
Fee expense	(413.2)	(7.9)	–	(421.1)
Wealth Management interest expense incurred	–	(11.0)	–	(11.0)
Cost of sales	(413.2)	(18.9)	–	(432.1)
Net operating revenue	1,489.5	223.3	–	1,712.8
Net gains on financial instruments and other income	28.2	0.7	29.9	58.8
Share of profit of associates and joint ventures	16.7	–	4.8	21.5
Net income	1,534.4	224.0	34.7	1,793.1
Operating expenses	(962.0)	(157.6)	(28.8)	(1,148.4)
Profit before tax and exceptional items	572.4	66.4	5.9	644.7

Segment assets and liabilities are not required to be presented as such information is not presented on a regular basis to the Group's chief operating decision maker.

1. Segmental reporting continued

(b) Exceptional items

Exceptional items are significant items of income and expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate principally to acquisitions undertaken by the Group, including amortisation of acquired intangible assets.

	Asset Management £m	Wealth Management £m	Group £m	Total £m
Year ended 31 December 2017				
Profit before tax and exceptional items	705.9	90.3	4.1	800.3
Exceptional items within net income:				
Net gains on financial instruments and other income	(3.5)	-	-	(3.5)
Amortisation of acquired intangible assets relating to associates and joint ventures	(1.6)	(0.2)	-	(1.8)
	(5.1)	(0.2)	-	(5.3)
Exceptional items within operating expenses:				
Amortisation of acquired intangible assets	(9.4)	(18.3)	-	(27.7)
Other expenses	(2.7)	(4.4)	-	(7.1)
	(12.1)	(22.7)	-	(34.8)
Profit before tax and after exceptional items	688.7	67.4	4.1	760.2
Year ended 31 December 2016				
Profit before tax and exceptional items	572.4	66.4	5.9	644.7
Exceptional items within net income:				
Net gains on financial instruments and other income	(1.4)	-	-	(1.4)
Amortisation of acquired intangible assets relating to associates and joint ventures	(2.0)	-	-	(2.0)
	(3.4)	-	-	(3.4)
Exceptional items within operating expenses:				
Amortisation of acquired intangible assets	(11.5)	(8.1)	-	(19.6)
Deferred compensation arising directly from acquisitions	-	-	2.0	2.0
Other expenses	(3.6)	(2.0)	-	(5.6)
	(15.1)	(10.1)	2.0	(23.2)
Profit before tax and after exceptional items	553.9	56.3	7.9	618.1

Notes to the accounts

1. Segmental reporting continued

(c) Geographical information

Net operating revenue by country is presented below based on the location of clients:

Country	Net operating revenue	
	2017 £m	2016 £m
United Kingdom	702.9	618.3
United States	160.1	135.8
Italy	134.1	117.6
Switzerland	134.0	118.0
Hong Kong	120.2	101.6
Australia	98.6	99.4
Germany	85.0	53.5
Japan	76.4	64.6
Singapore	56.4	51.7
Other	442.5	352.3
Total	2,010.2	1,712.8

The Group's non-current assets are located in the following countries:

Country	Non-current assets ¹	
	2017 £m	2016 £m
United Kingdom	726.3	544.8
Switzerland	166.8	39.1
China	87.3	73.9
United States	65.6	62.0
India	19.7	19.9
Singapore	19.1	17.3
Other	47.9	41.7
Total	1,132.7	798.7

1. Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

(d) Non-cash items

Year ended 31 December 2017	Asset Management £m	Wealth Management £m	Group £m	Total £m
Operating expenses include the following non-cash items:				
Share-based payments	(52.9)	(4.3)	(3.3)	(60.5)
Depreciation and amortisation	(44.7)	(18.7)	–	(63.4)
Net provisions charged	(9.6)	(1.0)	(2.0)	(12.6)
Year ended 31 December 2016				
Operating expenses include the following non-cash items:				
Share-based payments	(44.5)	(3.7)	(3.3)	(51.5)
Depreciation and amortisation	(37.8)	(8.6)	–	(46.4)
Net provisions charged	(7.3)	(1.0)	–	(8.3)

Where applicable, exceptional items are included in the non-cash items presented above.

2. Revenue

The Group's primary source of revenue is fee income from investment management activities performed within both the Asset Management and Wealth Management segments. Fee income includes management fees, performance fees and other income. Revenue also includes interest income earned within the Wealth Management segment.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. Management fees are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that the fee will be received.

Other income principally comprises revenues for other services which are typically driven by levels of AUM, along with revenues which vary according to the volume of transactions. Other income is recorded as the relevant services are provided and the receipt of income is almost certain.

Within Wealth Management, earning a net interest margin is a core activity. Interest income earned as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities is recognised within revenue. Interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

Revenue comprises:

	2017 £m	2016 £m
Management fees	2,155.6	1,848.3
Performance fees	78.4	41.2
Other income	245.4	223.8
Wealth Management interest income earned	32.3	31.6
	2,511.7	2,144.9

3. Cost of sales

Fee expenses incurred by the Group that vary in proportion to the relevant AUM are presented as cost of sales. These expenses include commissions, external fund manager fees and distribution fees payable to financial institutions, investment platform providers and financial advisers that distribute the Group's products. Fee expense is generally based on an agreed percentage of the value of the investments placed with the Group and is recognised in the income statement as the service is received.

Wealth Management pays interest to clients on deposits taken. For Wealth Management, earning a net interest margin is a core activity. Interest payable in respect of these activities is therefore recorded separately from interest payable elsewhere in the business and is reported as part of cost of sales. Interest payable is recognised using the effective interest method (see note 2).

Cost of sales comprises:

	2017 £m	2016 £m
Fee expense	490.6	421.1
Wealth Management interest expense incurred	10.9	11.0
	501.5	432.1

Notes to the accounts

4. Net gains on financial instruments and other income

The Group holds financial instruments to support its Group capital strategies which comprise operating capital, seed and co-investment capital and other investible equity. Operating capital is retained in the Group's operating entities to meet minimum local regulatory capital requirements and other capital required for day-to-day operational purposes. Operating capital principally comprises cash and cash equivalents and other low-risk financial instruments as well as financial instruments held to hedge fair value movements on certain deferred fund awards. Seed and co-investment capital represents strategic investments in the Group's products to develop new investment strategies, co-invest selectively alongside clients and finance growth initiatives. Seed and co-investment capital is financed from investment capital and, where practical, the market risk on seed capital investments is hedged. Investible equity held in excess of operating requirements is transferred to investment capital which is managed centrally in accordance with limits approved by the Board.

A portion of the Group's financial instruments held at fair value are carried at fair value through profit or loss (FVP). FVP financial instruments are those that are initially designated as such and those that are held for regular trading. Net gains and losses on FVP financial instruments principally comprise market returns on investments in debt securities, equities, pooled investment vehicles and any gains and losses on derivatives (which mainly arise from hedging activities). Net gains and losses on certain FVP financial instruments held to hedge deferred employee cash awards are presented separately and are included within operating expenses (see note 5). This presentation better reflects the substance of these transactions and provides more relevant information about the Group's net income and operating expenses.

The remainder of the Group's investments held at fair value are classified as available-for-sale (AFS). This classification is typically selected when the investment is expected to be held for the long term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Generally, unrealised gains and losses on AFS investments are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is impaired, sold or otherwise realised. The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at the date of reclassification or impairment) and the fair value of financial assets that are classified as AFS. Any impairments of loans and receivables are also included in the income statement. The Group reviews its AFS investments and loans and receivables for impairment at the end of each reporting period.

Net finance income is derived from interest on non-banking activities, principally generated from cash and deposits with banks, but also as a result of holding investments in debt securities. Debt securities and cash held outside of Wealth Management entities are managed mainly by Group Treasury to earn competitive rates of return and provide liquidity throughout the Group. Significant amounts of the Group's cash and interest-earning securities are held within Wealth Management and are managed by the Wealth Management treasury team. Interest earned on the assets held within Wealth Management is included in revenue; interest incurred on the liabilities assumed is included in cost of sales. Interest is recognised using the effective interest method (see note 2).

Other income includes amounts arising from assets under administration within Benchmark Capital, gains and losses on foreign exchange and rent receivable from subletting properties.

Net gains and losses on financial instruments and other income are:

	2017			2016		
	Income statement £m	Other comprehensive income £m	Total £m	Income statement £m	Other comprehensive income £m	Total £m
Net gains on financial instruments held at fair value through profit or loss	5.6	-	5.6	14.2	-	14.2
Net fair value movements on available-for-sale financial assets	-	(8.6)	(8.6)	-	18.5	18.5
Net exchange differences on available-for-sale financial assets	-	(0.3)	(0.3)	-	0.8	0.8
Net transfer on disposal of available-for-sale financial assets	3.3	(3.3)	-	5.2	(5.2)	-
Net gains/(losses) on available-for-sale financial assets	3.3	(12.2)	(8.9)	5.2	14.1	19.3
Net finance income	9.7	-	9.7	18.8	-	18.8
Other income	13.1	-	13.1	19.2	-	19.2
Net gains/(losses) on financial instruments and other income	31.7	(12.2)	19.5	57.4	14.1	71.5
Net gains on financial instruments held to hedge employee deferred cash awards – presented within operating expenses	13.2	-	13.2	25.6	-	25.6
Net gains/(losses) on financial instruments and other income – net of hedging	44.9	(12.2)	32.7	83.0	14.1	97.1

5. Operating expenses

Operating expenses represent the Group's administrative expenses and are recognised as the services are provided. Certain costs, including leases and capitalised costs, are charged evenly over the life of the relevant contract or useful life of the asset. The biggest component of the Group's operating expenses is employee benefits, as shown below. Other costs include accommodation, information technology, marketing and outsourcing costs.

The control of total costs, including compensation costs, is a key performance objective of the Group. Compensation costs are managed to a target total compensation ratio of between 45% to 49%. Targeting a total compensation ratio range provides some flexibility to manage the overall cost base in response to market conditions. Total costs are managed to a target long-term KPI ratio of total costs to net income of 65%.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. Employee benefits expense is presented net of gains and losses on financial instruments held to hedge deferred employee cash awards (see note 4). The Group makes some performance awards to employees which are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. The Group holds investments that are linked to these performance awards in order to hedge the related expense. Gains and losses on these investments are netted against the relevant costs in the income statement but are presented separately below.

Further detail on other types of employee benefit can be found elsewhere within these financial statements: see note 25 for pension costs, and note 26 for more detail on compensation that is awarded in Schroders plc shares.

(a) Employee benefits expense and number of employees

	2017 £m	2016 £m
Salaries, wages and other remuneration	784.0	714.9
Social security costs	71.3	63.7
Pension costs	41.5	37.9
Employee benefits expense	896.8	816.5
Net gains on financial instruments held to hedge deferred cash awards	(13.2)	(25.6)
Employee benefits expense - net of hedging	883.6	790.9

The employee benefits expense net of hedging of £883.6 million (2016: £790.9 million) includes a £2.3 million charge (2016: credit of £0.7 million) that is presented within exceptional items, which comprises £2.1 million (2016: £1.3 million) of restructuring costs and £0.2 million (2016: credit of £2.0 million) in relation to deferred compensation costs relating to acquisitions.

Information about the compensation of key management personnel can be found in note 27. Details of the amounts paid to or receivable from Directors along with the number of Directors who exercised share options in the year is provided in the Remuneration report on pages 62 to 90.

The monthly average number of employees of the Company and its subsidiary undertakings during the year was:

	2017 Number	2016 Number
Full-time employees	4,013	3,643
Contract and temporary employees	384	277
	4,397	3,920
Employed as follows:		
Asset Management	3,526	3,251
Wealth Management	831	640
Group	40	29
	4,397	3,920

(b) Audit and other services

	2017 £m	2016 £m
Fees payable to the auditor for the audit of the Company and Consolidated financial statements	0.6	0.5
Fees payable to the auditor and its associates for other services:		
Audit of the Company's subsidiaries	2.7	2.5
Audit-related assurance services	1.1	0.9
Other assurance services	-	0.5
Tax advisory services	0.1	0.1
Tax compliance services	-	0.2
Other non-audit services	1.2	0.3
	5.7	5.0

Notes to the accounts

6. Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a)) and relate to taxes payable for the reporting period (current tax). The charge also includes benefits and charges relating to when income or expenses are recognised in a different period for tax and accounting purposes or specific treatment relating to acquisitions (deferred tax – see note 14). Some current and deferred taxes are recorded through other comprehensive income (see part (b)), or directly to equity where the tax arises from changes in the value of remuneration settled as shares (see part (c)).

(a) Analysis of tax charge reported in the income statement

	2017 £m	2016 £m
UK current year charge	79.9	54.0
Rest of the world current year charge	84.2	89.0
Adjustments in respect of prior year estimates	(5.0)	(0.3)
Total current tax	159.1	142.7
Origination and reversal of temporary differences	(4.9)	(10.4)
Adjustments in respect of prior year estimates	0.9	(2.0)
Effect of changes in Corporation Tax rates	10.7	(2.4)
Total deferred tax	6.7	(14.8)
Tax charge reported in the income statement	165.8	127.9

(b) Analysis of tax charge reported in other comprehensive income

	2017 £m	2016 £m
Current income tax on movements in available-for-sale financial assets	(0.7)	2.9
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	7.1	(0.3)
Deferred tax on other movements through other comprehensive income	0.3	–
Deferred tax – effect of changes in Corporation Tax rates	–	0.4
Tax charge reported in other comprehensive income	6.7	3.0

(c) Analysis of tax credit reported in equity

	2017 £m	2016 £m
Current income tax credit on Equity Compensation Plan and other share-based remuneration	(4.2)	(4.2)
Deferred tax (credit)/charge on Equity Compensation Plan and other share-based remuneration	(1.6)	3.6
Deferred tax – effect of changes in Corporation Tax rates	0.6	(0.3)
Tax credit reported in equity	(5.2)	(0.9)

(d) Factors affecting tax charge for the year

The UK standard rate of corporation tax reduced from 20% to 19% on 1 April 2017 resulting in a UK effective tax rate of 19.25% (2016: standard rate of 20%). The tax charge for the year is higher (2016: higher) than a charge based on the UK effective rate. The differences are explained below:

	2017 £m	2016 £m
Profit before tax	760.2	618.1
Less post-tax profits of associates and joint ventures	(21.7)	(19.5)
Profit before tax of Group entities	738.5	598.6
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK effective rate of 19.25% (2016: standard rate of 20%)	142.2	119.7
Effects of:		
Different statutory tax rates of overseas jurisdictions	12.4	12.1
Permanent differences including non-taxable income and non-deductible expenses	3.5	1.7
Net movement in timing differences for which no deferred tax is recognised	1.1	(0.9)
Deferred tax adjustments in respect of changes in Corporation Tax rates	10.7	(2.4)
Prior year adjustments	(4.1)	(2.3)
Tax charge reported in the income statement	165.8	127.9

6. Tax expense continued

Estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. Liabilities relating to open and judgemental matters, including those in relation to deferred taxes, are based on the Group's assessment of the most likely outcome based on the information available. The Group engages constructively and transparently with tax authorities with a view to early resolution of any uncertain tax matters. Where the final tax outcome of these matters is different from the amounts provided, such differences will impact the tax charge in a future period and the tax charge includes an estimate reflecting the potential additional liability, if any. Such estimates are based on assumptions made on the probability of potential challenge within certain jurisdictions and the possible outcome based on interpretation and local tax laws.

Amounts recorded within the 2017 tax charge related to these judgements were not material (2016: same).

7. Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share (excluding own shares held by the Group). The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all share options that would be expected to be exercised, as they have value to the option holder, had been exercised in the period. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	2017 Number Millions	2016 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	275.4	274.7
Effect of dilutive potential shares – share options	5.6	5.6
Effect of dilutive potential shares – contingently issuable shares	0.1	0.2
Weighted average number of shares used in calculation of diluted earnings per share	281.1	280.5

The pre-exceptional earnings per share calculations are based on profit after tax excluding non-controlling interest of £3.7 million (2016: £0.5 million). After exceptional items, the profit after tax attributable to non-controlling interest was £1.4 million (2016: £0.5 million).

8. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-year and annual results. Dividends are recognised only when they are paid or approved by shareholders. The reduction in equity in the year therefore comprises the prior year final dividend and the current year interim dividend.

	2018		2017		2016	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Prior years final dividend paid			174.7	64.0	157.7	58.0
Interim dividend paid			92.9	34.0	78.9	29.0
Total dividends paid			267.6	98.0	236.6	87.0
Current year final dividend recommended	216.0	79.0				

Dividends of £9.3 million (2016: £9.2 million) on shares held by employee benefit trusts have been waived; dividends may not be paid on treasury shares. The Board has recommended a 2017 final dividend of 79.0 pence per share (2016 final dividend: 64.0 pence), amounting to £216.0 million (2016 final dividend: £174.7 million). The dividend will be paid on 3 May 2018 to shareholders on the register at 23 March 2018 and will be accounted for in 2018.

In addition, the Group paid £3.5 million of dividends to holders of non-controlling interests in subsidiaries of the Group during 2017 (2016: nil), resulting in total dividends paid of £271.1 million (2016: £236.6 million).

Notes to the accounts

9. Trade and other receivables

Trade and other receivables includes prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. Trade and other receivables, other than deposits with banks in the form of bullion which are recorded at fair value, are recorded initially at fair value and subsequently at amortised cost (see note 10), after the deduction of provisions for any impairment. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense recognised in the income statement. Amounts due from third parties include fees yet to be received as well as settlement accounts for transactions undertaken on behalf of funds and investors.

	2017			2016		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other receivables held at amortised cost:						
Fee debtors	-	63.7	63.7	-	67.2	67.2
Settlement accounts	-	182.0	182.0	-	160.1	160.1
Accrued income ¹	19.6	373.7	393.3	-	325.4	325.4
Prepayments	0.2	27.2	27.4	0.2	26.6	26.8
Other receivables	1.9	30.4	32.3	2.0	26.1	28.1
Current tax	-	13.8	13.8	-	11.8	11.8
	21.7	690.8	712.5	2.2	617.2	619.4
Trade and other receivables held at fair value:						
Deposits with banks in the form of bullion	-	26.5	26.5	-	28.8	28.8
	21.7	717.3	739.0	2.2	646.0	648.2

1. Includes receivables arising from the acquisition of Adveq Holding AG (see note 29).

The fair value of trade and other receivables held at amortised cost approximates to their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 10).

10. Financial assets

The Group holds financial assets including equities, debt securities, pooled investment vehicles and derivatives to support its Group capital strategies and its Wealth Management book along with client loans. The Group also enters into derivatives on behalf of Wealth Management clients, referred to as client facilitation (see note 20).

The Group initially records all financial assets at fair value, which is normally the cost of acquiring the asset or, in the case of loans, the amount loaned to clients. The Group holds each financial asset either at fair value ('fair value through profit or loss' and 'available-for-sale') or at amortised cost ('held to maturity' and 'loans and receivables'). Fair value is explained on page 109. Amortised cost is the basis of moving the initial value at which the financial instrument is recognised to the maturity value on a systematic basis using a fixed interest rate (effective interest rate), taking account of repayment dates and initial premiums or discounts. The carrying value of amortised cost financial instruments is adjusted for impairments. Impairment is normally determined based on an assessment of the estimated future cash flows on a discounted basis using the original effective interest rate compared with contractual amounts.

Hedge accounting

Where derivatives are held for risk management purposes, the Group designates certain derivatives as fair value hedges or hedges of a net investment in a foreign operation. In these scenarios, and where relevant conditions are met, hedge accounting is applied and the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives and its strategy for undertaking the various hedging transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of hedged items.

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement whereas, for an available-for-sale asset, it would otherwise have been recorded in other comprehensive income. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting or the instrument is derecognised.

In respect of hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. The ineffective portion is recognised in the income statement. On disposal of the foreign operation, the cumulative gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

10. Financial assets continued

	2017			2016		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Held to maturity	–	10.2	10.2	2.8	146.7	149.5
Loans and receivables	215.9	1,266.1	1,482.0	179.6	1,174.0	1,353.6
Fair value through profit or loss – derivatives	13.4	31.9	45.3	17.2	23.2	40.4
Fair value through profit or loss – other investments	32.0	916.4	948.4	0.7	779.4	780.1
Available-for-sale	172.3	822.6	994.9	58.2	723.2	781.4
	433.6	3,047.2	3,480.8	258.5	2,846.5	3,105.0

The fair value of held to maturity financial assets and loans and receivables held at amortised cost approximates to their carrying value.

Estimates and judgements – fair value measurements

The Group holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments may require some estimation or may be derived from readily available sources. The degree of estimation involved is reflected below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Financial assets that have no quoted price principally consist of investments in private equity funds, derivatives and client loans in Wealth Management. The determination of fair value for these instruments requires significant estimation, particularly in determining whether changes in fair value have occurred since the last formal valuation.

The Group's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These judgements may include determining which valuation approach to apply as well as determining appropriate assumptions. For level 2 and 3 investments, the judgement applied by the Group gives rise to an estimate of fair value. The fair value estimate of level 2 and 3 investments are set out below, with no individual input giving rise to a material component of the carrying value for the Group. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities and government debt, daily-priced funds and exchange-traded derivatives;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, asset and mortgage backed securities, and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity funds. These are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Guidelines. The valuation review is a continual process throughout the year.

Estimates and judgements – impairment of financial assets

The Group's financial assets categorised as available-for-sale are assessed for impairment by considering the extent to which the fair value of an investment is below cost and to the length of time that the fair value of an instrument has been below cost.

In determining whether financial assets are impaired, the Group applies judgement to determine whether there are any indicators that counterparties are experiencing financial difficulty or that the fair value is otherwise unlikely to recover in the long term. The Group monitors its Wealth Management loans on a daily basis and exercises judgement periodically in determining whether a loan should be impaired. This includes, amongst other steps, assessing the financial condition of the borrower and the value of the loan compared to the collateral pledged by the borrower. There were no material judgements with respect to impairment of financial assets made in 2017 (2016: same).

Notes to the accounts

10. Financial assets continued

The Group's financial assets held at fair value (excluding those held in the Life Company – see note 15) at the year end date are analysed as follows:

	2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Equities	135.1	0.2	12.4	147.7
Pooled investment vehicles	657.9	8.5	46.1	712.5
Debt securities	450.5	631.9	–	1,082.4
Derivative contracts	2.6	29.3	13.4	45.3
Loans	–	0.7	–	0.7
	1,246.1	670.6	71.9	1,988.6

No financial assets were transferred between levels during 2017. During 2016, £703.3 million of debt securities were transferred from level 1 to level 2 as a result of a change to the methodology applied by the Group's third party pricing provider. This change did not represent degradation in the quality of assets held.

	2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Equities	149.6	2.6	17.8	170.0
Pooled investment vehicles	461.0	8.5	20.6	490.1
Debt securities	176.7	722.7	1.3	900.7
Derivative contracts	0.6	22.7	17.1	40.4
Loans	–	0.7	–	0.7
	787.9	757.2	56.8	1,601.9

Movements in financial assets categorised as Level 3 during the year were:

	2017 £m	2016 £m
At 1 January	56.8	33.6
Exchange translation adjustments	(0.1)	3.9
Total (losses)/gains recognised in the income statement	(3.0)	0.3
Total (losses)/gains recognised in other comprehensive income ¹	(6.8)	1.9
Additions ²	36.0	23.7
Disposals	(11.0)	(6.6)
At 31 December	71.9	56.8

1. Reported within net fair value movement arising from available-for-sale financial assets.

2. Additions during the year primarily relate to the acquisition of Adveq Holding AG (see note 29).

11. Associates and joint ventures

Associates are entities in which the Group has an investment and over which it has significant influence, but not control, through participation in the financial and operating policy decisions. Joint ventures are entities in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. In both cases, the Group's income statement reflects its share of the entity's profit or loss after tax and amortisation of intangible assets, the statement of other comprehensive income records the Group's share of gains and losses arising from the entity's available-for-sale financial assets, the statement of financial position records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase less subsequent amortisation and the statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are reviewed regularly for impairment.

The associates and joint ventures reserve in the statement of changes in equity represents the Group's share of profits in its investments yet to be received (for example, in the form of dividends or distributions), less any amortisation of intangible assets. Certain associates are held at fair value where permitted by IAS 28. The fair value of these holdings are disclosed within this note but their value is recorded within financial assets (see note 10).

(a) Investments in associates and joint ventures accounted for using the equity method

	2017			2016		
	Associates ¹ £m	Joint ventures £m	Total £m	Associates ² £m	Joint ventures ³ £m	Total £m
At 1 January	123.1	1.9	125.0	104.9	4.3	109.2
Exchange translation adjustments	(2.7)	–	(2.7)	10.7	0.1	10.8
Additions	5.9	–	5.9	3.5	–	3.5
Disposals	–	–	–	–	(2.2)	(2.2)
Profit for the year after tax	20.9	0.8	21.7	19.0	0.5	19.5
Losses recognised in other comprehensive income	(3.0)	–	(3.0)	(6.2)	–	(6.2)
Other movements in reserves of associates and joint ventures	(0.3)	–	(0.3)	(0.9)	–	(0.9)
Distributions of profit	(2.1)	(0.6)	(2.7)	(7.9)	(0.8)	(8.7)
At 31 December	141.8	2.1	143.9	123.1	1.9	125.0

- On 21 August 2017, the Group increased its holding in Safe Harbor Re Holdings LLC (Safe Harbor), a long-term insurer with operations based in Bermuda. Following this transaction, Safe Harbor is accounted for as an associate. Safe Harbor was previously accounted for as an available-for-sale financial asset and £2.6 million was transferred to investments in associates following the transaction. On 7 June 2017 and 29 September 2017 the Group acquired two further associates, Robertson Baxter Limited and Kellands (Bristol) Limited respectively.
- On 22 March 2016, the Group entered into a strategic relationship with a Dutch direct lending platform, NEOS Finance Group B.V. (NEOS). Schroders acquired a 25% holding in the business, which is accounted for as an associate.
- On 1 February 2016, the Group increased its holding in Secquaero Advisors AG (Secquaero) from 30.0% to 50.1%. Accordingly, from 1 February 2016, Secquaero was consolidated into the Group as a subsidiary. Prior to this date, Secquaero was accounted for as a joint venture. This change in ownership is required to be accounted for as a disposal of a joint venture and an acquisition of a subsidiary.

Information about the significant associates held by the Group at 31 December 2017 is shown below. The companies are unlisted.

Name of associate	Status	Nature of its business	Principal place of business	Class of share	Percentage owned by the Group
RWC Partners Limited (RWC)	Associate	Investment management	England	Ordinary shares	43%
Bank of Communications Schroder Fund Management Co. Ltd. (BoCom)	Associate	Investment management	China	Ordinary shares	30%
Axis Asset Management Company Limited (Axis)	Associate	Investment management	India	Ordinary shares	25%

Notes to the accounts

11. Associates and joint ventures continued

Summarised financial information in respect of the Group's associates set out below:

	2017					2016				
	RWC £m	BoCom £m	Axis £m	Other £m	Total £m	RWC £m	BoCom £m	Axis £m	Other £m	Total £m
Non-current assets	5.0	295.9	14.9	2.7	318.5	0.4	51.4	13.5	2.8	68.1
Current assets	53.6	108.5	39.9	7.3	209.3	44.0	254.0	27.3	4.5	329.8
Non-current liabilities	-	-	(9.9)	(7.2)	(17.1)	-	-	(5.4)	(2.8)	(8.2)
Current liabilities	(25.1)	(113.6)	(15.3)	(1.6)	(155.6)	(12.6)	(59.2)	(11.9)	(0.4)	(84.1)
Total equity	33.5	290.8	29.6	1.2	355.1	31.8	246.2	23.5	4.1	305.6
Group's share of net assets	14.4	87.3	7.4	1.3	110.4	13.7	73.9	5.9	2.0	95.5
Goodwill and intangible assets	10.2	-	12.1	9.1	31.4	10.2	-	14.0	3.4	27.6
Carrying value held by the Group	24.6	87.3	19.5	10.4	141.8	23.9	73.9	19.9	5.4	123.1
Net income	38.8	154.9	81.0	1.4	276.1	36.2	133.0	53.4	0.3	222.9
Profit/(loss) for the year	4.9	61.5	8.6	0.2	75.2	11.1	49.8	5.6	(0.4)	66.1
Other comprehensive loss	-	(10.1)	-	-	(10.1)	-	(20.7)	-	-	(20.7)
Total comprehensive income/(loss)	4.9	51.4	8.6	0.2	65.1	11.1	29.1	5.6	(0.4)	45.4
Group's share of profit/(loss) for the year before amortisation	2.1	18.4	2.2	(0.2)	22.5	4.8	14.9	1.4	(0.1)	21.0
Amortisation charge	-	-	(1.6)	-	(1.6)	-	-	(2.0)	-	(2.0)
Group's share of profit/(loss) for the year	2.1	18.4	0.6	(0.2)	20.9	4.8	14.9	(0.6)	(0.1)	19.0
Group's share of other comprehensive loss	-	(3.0)	-	-	(3.0)	-	(6.2)	-	-	(6.2)
Group's share of total comprehensive income/(loss)	2.1	15.4	0.6	(0.2)	17.9	4.8	8.7	(0.6)	(0.1)	12.8

(b) Investments in associates measured at fair value

Where the Group holds units in pooled investment vehicles which give the Group significant influence, but not control, through participation in the financial and operating policy decisions, the Group records such investments at fair value. Information about the Group's principal associates measured at fair value is shown below. The investments are recorded as financial assets within the Group's statement of financial position.

Summarised financial information in respect of the Group's associates held at fair value is set out below:

	2017					
	Hartford Multi-Sector Fund £m	Schroder Emerging Markets Bond Fund £m	Schroder Global Equity Fund £m	Schroder US Equity Income Maximiser Fund £m	Schroder Liquid Alternatives Investimento No Exterior Fundos De Investimento £m	Schroder Advanced Beta Global Equity Value Fund £m
Current assets	76.1		362.7	75.5	12.0	334.5
Current liabilities	(0.1)		(0.5)	-	(0.2)	(3.0)
Total equity	76.0		362.2	75.5	11.8	331.5
Net income	6.5		5.4	1.1	0.1	17.4
Profit for the year	6.1		5.3	1.0	0.1	17.4
Total comprehensive income	6.1		5.3	1.0	0.1	17.4
Country of incorporation	USA		UK	UK	Brazil	UK
Percentage owned by the Group	24%		23%	23%	22%	27%

11. Associates and joint ventures continued

2016

	Hartford Schroder Emerging Markets Multi-Sector Bond Fund £m	SISF Global Unconstrained Bond Fund £m	Schroder Global Shariah Equity Fund £m	Schroder Specialist Value UK Equity Fund £m	Schroder All Maturities Corporate Bond Fund £m	Schroder Institutional Sterling Bond Fund £m	Schroder Global Equity Fund £m	Schroder QEP Global Emerging Markets Fund £m
Current assets	47.7	50.9	20.1	102.0	889.8	10.4	345.9	632.9
Current liabilities	(0.1)	(1.7)	(3.1)	(0.1)	(2.5)	(0.2)	(4.5)	(0.6)
Total equity	47.6	49.2	17.0	101.9	887.3	10.2	341.4	632.3
Net income	6.2	3.2	1.2	24.5	98.1	7.0	72.7	14.5
Profit for the year	5.9	2.7	0.5	24.5	97.9	6.9	72.7	14.2
Total comprehensive income	5.9	2.7	0.5	24.5	97.9	6.9	72.7	14.2
Country of incorporation	USA	Luxembourg	Indonesia	UK	UK	UK	UK	UK
Percentage owned by the Group	39%	29%	25%	32%	25%	23%	21%	30%

12. Property, plant and equipment

The Group's property, plant and equipment provide the infrastructure to enable the Group to operate and principally comprise leasehold improvements, freehold land and buildings and computer equipment. Assets are initially stated at cost, which includes expenditure associated with acquisition. The cost of the asset is recognised in the income statement as a depreciation charge on a straight line basis over the estimated useful life, with the exception of land as it is assumed to have an indefinite useful life.

	2017				2016			
	Leasehold improvements £m	Land and Buildings £m	Other assets £m	Total £m	Leasehold improvements £m	Land and Buildings £m	Other assets £m	Total £m
Cost								
At 1 January	89.7	3.9	61.2	154.8	65.0	3.4	45.2	113.6
Exchange translation adjustments	(1.1)	0.2	(0.8)	(1.7)	3.8	0.5	4.0	8.3
Additions	81.4	19.0	13.0	113.4	21.2	-	12.3	33.5
Disposals	(4.0)	-	(1.0)	(5.0)	(0.3)	-	(0.3)	(0.6)
At 31 December	166.0	23.1	72.4	261.5	89.7	3.9	61.2	154.8
Accumulated depreciation								
At 1 January	(50.5)	-	(37.9)	(88.4)	(45.0)	-	(26.8)	(71.8)
Exchange translation adjustments	0.5	-	0.5	1.0	(2.6)	-	(2.7)	(5.3)
Depreciation charge for the year	(4.5)	(0.1)	(11.7)	(16.3)	(3.0)	-	(8.7)	(11.7)
Disposals	4.0	-	1.0	5.0	0.1	-	0.3	0.4
At 31 December	(50.5)	(0.1)	(48.1)	(98.7)	(50.5)	-	(37.9)	(88.4)
Net book value at 31 December	115.5	23.0	24.3	162.8	39.2	3.9	23.3	66.4

Notes to the accounts

13. Goodwill and intangible assets

Intangible assets (other than software) arise when the Group acquires a business and the fair value paid exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the business. Identifiable acquired intangible assets relating to business combinations include technology, contractual agreements to manage client funds and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are classified as acquired intangible assets and charged to the income statement over time.

Consideration paid to acquire the business in excess of the acquisition date fair value of net tangible and identifiable intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant cash-generating unit (CGU) as a whole.

Software purchased and developed for use in the business is also classified as an intangible asset. The cost of purchasing and developing software is taken to the income statement over time as an amortisation charge within operating expenses. The treatment is similar to property, plant and equipment and the asset is normally amortised on a straight line basis over three to five years, but can have estimated useful lives of up to 10 years.

	2017				2016			
	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost								
At 1 January	454.9	186.6	116.2	757.7	359.1	136.7	80.8	576.6
Exchange translation adjustments	(8.2)	(3.6)	(1.0)	(12.8)	13.2	5.9	3.1	22.2
Additions	148.4	64.3	63.7	276.4	82.6	44.0	32.3	158.9
Disposals	-	-	(1.5)	(1.5)	-	-	-	-
At 31 December	595.1	247.3	177.4	1,019.8	454.9	186.6	116.2	757.7
Accumulated amortisation								
At 1 January	-	(97.3)	(53.3)	(150.6)	-	(73.9)	(35.3)	(109.2)
Exchange translation adjustments	-	1.7	0.5	2.2	-	(4.0)	(2.7)	(6.7)
Amortisation charge for the year	-	(27.7)	(19.4)	(47.1)	-	(19.4)	(15.3)	(34.7)
Disposals	-	-	1.5	1.5	-	-	-	-
At 31 December	-	(123.3)	(70.7)	(194.0)	-	(97.3)	(53.3)	(150.6)
Carrying amount at 31 December	595.1	124.0	106.7	825.8	454.9	89.3	62.9	607.1

Of the total goodwill of £595.1 million (2016: £454.9 million), £410.8 million (2016: £320.2 million) is allocated to Asset Management and £184.3 million (2016: £134.7 million) to Wealth Management.

The Group acquired £64.3 million (2016: £44.0 million) of intangible assets as a result of business combinations completed in 2017, £33.9 million of which related to the acquisition of Adveq Holding AG in the Asset Management segment and £26.5 million of which related to the acquisition of the wealth management business of C. Hoare & Co. A further £3.9 million was added to the Wealth Management segment from other completed acquisitions (see note 29).

Estimates and judgements

The Group estimates the fair value of acquired intangible assets based on estimated profits, taking account of synergies, derived from contractual relationships that existed at the acquisition date. This assessment involved assumptions relating to potential future revenues, appropriate discount rates and the expected duration of client relationships. The Group also made estimates to determine the fair value of certain other identifiable assets and liabilities, which included judgement principally with respect to the determination of carried interest receivable and related liabilities and specifically the assumed growth rates, realisation dates and appropriate discount rates. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, was accounted for as goodwill (see note 29).

At each reporting date, the Group applies judgement to determine whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and a full assessment determines that the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model, details of which are provided on page 115. Any impairment is recognised immediately in the income statement and cannot be reversed. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from that business combination. For all relevant acquisitions, it is the Group's judgement that the lowest level of CGU used to determine impairment is segment level for Asset Management. The Benchmark Capital business within Wealth Management is assessed separately from the rest of Wealth Management.

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

13. Goodwill and intangible assets continued

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which the Group's cash flow projections are based include long-term market growth rates of 2% per annum (2016: 2%), a pre-tax discount rate of 11% (2016: 10%), expected fund flows and expected changes to margins. The results of the calculation indicate that goodwill is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGUs is small. This is due to the amount of goodwill allocated to the relevant CGU relative to the size of the relevant future profitability estimate.

Movements in the growth rate and/or the discount rate of 1% would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years reveals that the Group would have recognised no changes (2016: nil) to its goodwill asset in the year as a result of inaccurate projections.

14. Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded. A deferred tax asset represents a tax reduction that is expected to arise in a future period based on past transactions. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction.

Deferred tax liabilities also arise on certain acquisitions where the amortisation of the acquired intangible asset does not result in a tax deduction. The deferred tax liability is established on acquisition and is released to the income statement to match the intangible asset amortisation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the year end date.

	2017					2016				
	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m	Accelerated capital allowances £m	Deferred employee awards £m	Pension schemes £m	Other net temporary differences £m	Total £m
At 1 January	3.5	92.7	(20.1)	(10.3)	65.8	1.9	79.9	(20.8)	(7.7)	53.3
Income statement (charge)/credit	(4.7)	3.7	(0.3)	5.3	4.0	2.1	6.9	(0.8)	4.2	12.4
Income statement credit/(charge) due to changes in tax rates	1.1	(11.2)	0.1	(0.7)	(10.7)	0.1	0.9	1.6	(0.2)	2.4
(Charge)/credit to other comprehensive income	-	-	(7.1)	(0.3)	(7.4)	-	-	0.3	-	0.3
Charge to other comprehensive income due to changes in tax rates	-	-	-	-	-	-	-	(0.4)	-	(0.4)
Credit/(charge) taken to equity	-	1.6	-	-	1.6	-	(3.6)	-	-	(3.6)
(Credit)/charge to equity due to changes in tax rates	-	(0.6)	-	-	(0.6)	-	0.3	-	-	0.3
Business combinations (see note 29)	-	-	-	(10.9)	(10.9)	-	-	-	(7.1)	(7.1)
Exchange translation adjustments	0.2	(2.5)	-	(0.3)	(2.6)	(0.6)	8.3	-	0.5	8.2
At 31 December	0.1	83.7	(27.4)	(17.2)	39.2	3.5	92.7	(20.1)	(10.3)	65.8

A deferred tax asset of £19.7 million (2016: £31.3 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the deferred tax asset could be utilised.

A deferred tax asset of £7.2 million (2016: £10.2 million) relating to losses and other temporary differences has not been recognised as there is insufficient evidence that there will be sufficient taxable profits against which these losses and temporary differences can be utilised.

The aggregate amount of gross temporary differences regarding investments in subsidiaries is £3.4 million (2016: £5.1 million). Deferred tax has not been provided as the relevant parent company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

After offsetting deferred tax assets and liabilities where appropriate within territories, the net deferred tax asset comprises:

	2017 £m	2016 £m
Deferred tax assets	39.3	66.0
Deferred tax liabilities	(0.1)	(0.2)
	39.2	65.8

Notes to the accounts

15. Unit-linked liabilities and assets backing unit-linked liabilities

The Group operates a unit-linked life assurance business through the wholly-owned subsidiary, Schroder Pension Management Limited (referred to as the 'Life Company'). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for any insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to a unit trust. The Group earns fee income from managing the investment, which is included in revenue. As it is a life assurance product, the contractual rights and obligations of the investments remain with the Group and the AUM is therefore included on the Group's statement of financial position, together with the liability to investors.

Financial assets and liabilities held by the Life Company are measured at fair value through profit or loss. Other balances include cash and receivables, which are measured at amortised cost (see note 10). The Life Company's assets are regarded as current assets as they represent the amount available to Life Company investors (or third party investors in other funds) who are able to withdraw their funds on call, subject to certain restrictions in the case of illiquidity. Gains and losses from assets and liabilities held to cover investor obligations are attributable to investors in the Life Company or third party investors in the funds. As a result, any gain or loss is offset by a change in the obligation to investors.

Unit-linked liabilities comprise:

	2017 £m	2016 £m
Financial liabilities due to Life Company investors	10,591.4	10,273.3
Financial liabilities due to third party investors ¹	3,395.0	2,654.3
	13,986.4	12,927.6

1. In accordance with accounting standards, the Group is deemed to hold a controlling interest in certain funds as a result of the investments held by the Life Company. This results in all of the assets and liabilities of those funds being consolidated within the Group's statement of financial position and the third party interest in the fund being recorded as a financial liability due to third party investors.

The Group has no primary exposure to market risk, credit risk or liquidity risk in relation to the investments due to Life Company investors. The risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third party investors in the funds and not by the Life Company itself.

Fair value measurements of Life Company financial assets and liabilities

Each of the Life Company's financial assets and liabilities has been categorised using a fair value hierarchy. These levels are based on the degree to which the fair value is observable and are defined in note 10.

The Life Company's financial instruments at the year end date are analysed as follows:

	2017				Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	
Assets backing unit-linked liabilities	9,576.3	3,704.5	54.6	651.0	13,986.4
Unit-linked liabilities	13,906.1	42.8	-	37.5	13,986.4
	2016				
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	Total £m
Assets backing unit-linked liabilities	9,063.0	3,289.2	44.5	530.9	12,927.6
Unit-linked liabilities	12,840.9	49.2	-	37.5	12,927.6

15. Unit-linked liabilities and assets backing unit-linked liabilities continued

The types of instruments found in each of the levels 1 and 3 for the Life Company are the same as those listed for the non-Life Company instruments in note 10. Level 2 investments principally comprise commercial papers, certificates of deposit, forward foreign exchange contracts and certain debt securities. No financial assets were transferred from level 1 to level 2 during the year. During 2016, £1,927.7 million of debt securities were transferred from level 1 to level 2 during the year as a result of a change to the methodology applied by the Group's third party pricing provider. This change did not represent a degradation in the quality of assets held.

The fair value of financial instruments not held at fair value approximates to their carrying value in 2016 and 2017.

Movements in financial assets categorised as level 3 during the year were:

	2017 £m	2016 £m
At 1 January	44.5	43.4
Exchange translation adjustments	1.5	6.5
Gains recognised in the income statement	4.8	4.8
Additions	14.1	0.9
Disposals	(10.3)	(11.1)
At 31 December	54.6	44.5

16. Trade and other payables

Trade and other payables at amortised cost represent amounts the Group is due to pay in the normal course of business and deferred income, being fees received in advance of services provided. Amounts the Group is due to pay in the normal course of business are made up of creditors and accruals. Accruals represent costs, including remuneration, that are not yet billed or due for payment, but for which the goods or services have been received.

Trade and other payables at fair value comprise deferred cash awards (deferred employee remuneration payable in cash) and bullion deposits by customers.

Trade and other payables are initially recorded at fair value, and are subsequently measured at amortised cost or fair value (see note 10), as shown below.

	2017			2016		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables at amortised cost:						
Settlement accounts	–	186.8	186.8	–	169.8	169.8
Trade creditors	–	10.6	10.6	–	6.3	6.3
Social security	26.0	59.6	85.6	22.2	53.3	75.5
Accruals and deferred income	10.7	457.4	468.1	9.2	447.6	456.8
Other payables	2.5	20.0	22.5	0.6	23.2	23.8
	39.2	734.4	773.6	32.0	700.2	732.2
Trade and other payables at fair value:						
Deferred cash awards	73.7	63.9	137.6	78.5	43.8	122.3
Bullion deposits by customers	–	26.5	26.5	–	28.8	28.8
	73.7	90.4	164.1	78.5	72.6	151.1
	112.9	824.8	937.7	110.5	772.8	883.3

The fair value of trade and other payables held at amortised cost approximates to their carrying value. The fair value of bullion deposits by customers is derived from level 1 inputs. The fair value of deferred cash awards is derived from level 1 inputs, being equal to the fair value of the units in funds to which the employee award is linked.

Notes to the accounts

The Group's trade and other payables contractually mature in the following time periods:

	2017 £m	2016 £m
Less than 1 year ¹	824.8	772.8
1 – 2 years	58.9	60.9
2 – 5 years	51.3	49.0
More than 5 years	2.7	0.6
	112.9	110.5
	937.7	883.3

1. Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 20 working days (2016: 19 working days).

17. Financial liabilities

The Group's financial liabilities principally comprise deposits by Wealth Management clients and banking counterparties. They also include derivatives held for client facilitation or interest rate matching in Wealth Management (see note 20), and the hedging of risk exposures within investment capital. Other financial liabilities mainly comprise liabilities that arise from third party interests in structured entities as a result of co-investment arrangements (at amortised cost) and third party interests in consolidated funds (at fair value). Consolidation occurs when the Group is deemed to control a fund, usually in respect of Life Company or seed capital investments. When a fund is consolidated, the Group accounts for the fund in its statement of financial position as if it were wholly-owned by the Group, but records an additional liability representing the fair value of the proportion of the fund owned by third party investors. Where the investment is held by the Life Company, the fair value of the proportion of the fund owned by third party investors is shown as part of unit-linked liabilities (see note 15).

Following the acquisition of Adveq Holding AG (see note 29), the Group has financial liabilities which were initially recorded at fair value, and subsequently at amortised cost or at fair value (see note 10), as shown below.

	2017			2016		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Financial liabilities at amortised cost:						
Client accounts	50.3	3,635.4	3,685.7	68.1	3,632.2	3,700.3
Deposits by banks	–	59.3	59.3	–	62.5	62.5
Other financial liabilities held at amortised cost ¹	23.4	3.0	26.4	–	1.8	1.8
	73.7	3,697.7	3,771.4	68.1	3,696.5	3,764.6
Financial liabilities at fair value:						
Derivative contracts (see note 20)	–	24.2	24.2	–	22.3	22.3
Other financial liabilities held at fair value through profit or loss	72.4	87.3	159.7	45.6	69.5	115.1
	72.4	111.5	183.9	45.6	91.8	137.4
	146.1	3,809.2	3,955.3	113.7	3,788.3	3,902.0

1. Includes liabilities arising from the acquisition of Adveq Holding AG (see note 29).

For the maturity profiles of client accounts, deposits by banks and derivative contracts see notes 19 and 20.

The fair value of financial liabilities held at amortised cost approximates to their carrying value.

Estimates and judgements

The carrying value of financial liabilities may involve estimation or be derived from readily available sources. Financial liabilities have been categorised using a fair value hierarchy that reflects the extent of estimates and judgements used in the valuation. The Group's financial liabilities categorised as level 3 principally consist of contingent consideration and other financial liabilities arising from prior acquisitions completed by the Group.

The carrying values of level 3 financial liabilities are typically derived from an estimate of the expected future cash flows required to settle the liability. These estimates are typically derived from the projected performance of the acquired businesses for a number of years into the future. For the Life Company, the fair values of level 3 financial liabilities are derived from the value of the related assets backing the liability (see note 15).

17. Financial liabilities continued

Fair value measurements

The Group holds financial liabilities that are measured at fair value. Each instrument has been categorised within one of three levels using a fair value hierarchy as defined in note 10.

The Group's financial liabilities held at fair value (excluding those held in the Life Company – see note 15) at the year end date are analysed as follows:

	2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m ¹	
Derivative contracts	4.9	19.3	–	24.2
Other financial liabilities held at fair value through profit or loss	87.3	–	72.4	159.7
	92.2	19.3	72.4	183.9

1. The movement in Level 3 financial liabilities during 2017 comprises £32.2 million with regards to the acquisition of Adveq Holding AG (see note 29) partly offset by other movements of £4.0 million.

	2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Derivative contracts	1.4	20.9	–	22.3
Other financial liabilities held at fair value through profit or loss	69.5	1.4	44.2	115.1
	70.9	22.3	44.2	137.4

18. Provisions and contingent liabilities

Provisions are liabilities where there is uncertainty over the timing or amount of settlement and therefore usually require the use of estimates. They are recognised when three conditions are fulfilled: when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will incur a loss in order to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. They are recorded at the Group's best estimate of the cost of settling the obligation. Any differences between those estimates and the amounts for which the Group actually becomes liable are taken to the income statement as additional charges where the Group has underestimated and credits where the Group has overestimated. Where the estimated timing and settlement is longer-term, the amount is discounted using a rate reflecting specific risks associated with the provision.

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and are not included within the statement of financial position.

(a) Provisions

	Dilapidations and onerous leases £m	Legal, regulatory and other £m	Total £m
At 1 January 2017	18.5	14.6	33.1
Exchange translation adjustments	(0.3)	0.3	0.0
Provisions utilised	(0.2)	(1.5)	(1.7)
Additional provisions charged in the year	0.6	12.4	13.0
Unused amounts reversed in the year	–	(0.4)	(0.4)
At 31 December 2017	18.6	25.4	44.0
Current – 2017	16.2	9.0	25.2
Non-current – 2017	2.4	16.4	18.8
	18.6	25.4	44.0
Current – 2016	5.0	8.0	13.0
Non-current – 2016	13.5	6.6	20.1
	18.5	14.6	33.1

Notes to the accounts

18. Provisions and contingent liabilities continued

The Group's provisions are expected to mature in the following time periods:

	2017 £m	2016 £m
Less than 1 year	25.2	13.0
1 – 2 years	16.8	17.9
2 – 3 years	0.6	1.3
3 – 4 years	0.6	0.2
4 – 5 years	0.2	0.2
More than 5 years	0.6	0.5
	18.8	20.1
	44.0	33.1

The provision for dilapidations and onerous leases covers lease commitments with a weighted average maturity of one year (2016: two years).

Legal and regulatory obligations associated with the Group's business arise from past events that are estimated to crystallise mainly within two years (2016: two years). These matters are ongoing.

Estimates and judgements

The timing and amount of settlement of each legal claim or potential claim, regulatory matter and constructive obligation is uncertain. The Group has performed an assessment of the timing and amount, and reviews this assessment periodically. For some provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from subletting arrangements. Potential legal claims, regulatory related costs and other obligations to third parties arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. In certain circumstances, legal and regulatory claims can arise despite there being no error or breach. Our risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and the quantum and timing of that payment. As a result there is also uncertainty over the timing and amount of any insurance recovery, although this does not change the likelihood of insurance cover being available, where applicable. The Group makes periodic assessments of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered in whole or in part by the Group's insurance arrangements. The Group has made provisions based on the reasonable expectation of likely outflows. However the results of negotiations and insurance cover may result in different outcomes.

At 31 December 2017, there are no key judgements that would result in any material provisions being recognised or disclosed in the financial statements. The estimates of provisions included in the financial statements at 31 December 2017 are based on estimates of reasonable ranges of likely outcomes applying assumptions regarding the probability of payments being due and the settlement value. The aggregate reasonable ranges have been assessed as not materially different to the carrying values.

(b) Contingent liabilities

	2017 £m	2016 £m
Assets pledged as collateral security	29.6	32.4
Guarantees and irrevocable letters of credit	25.8	29.7
	55.4	62.1

Transactions giving rise to contingent liabilities are principally in Wealth Management and are only entered into by the Group once it has received sufficient high quality collateral from the client. Assets pledged as collateral security reflect the value of instruments that the Group is required to hold with clearing agents in order to support the execution of the Group's security transactions. The pledged assets provide collateral in the event of the Group not settling trades within agreed time frames.

19. Financial instrument risk management

The Group allocates its total assets less liabilities, its net assets or capital, between operating capital, investment capital, seed and co-investment capital and other capital. The Group Capital Committee (GCC) is responsible for the management of capital and sets objectives for how it is deployed. This note explains how the Group manages its capital, setting out the nature of the risks the Group faces as a result of its operations, and how these risks are quantified and managed.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of AUM and are therefore impacted by financial instrument risk exposure of our clients – the secondary exposure. This note deals only with the direct or primary exposure of financial risks from the Group's holding of financial instruments (see the Key Risks and Mitigations report on page 34).

The Group is exposed to multiple forms of risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the wellbeing of the Group.

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third party investors, consistent with other investment products managed by the Group. However, since the Life Company provides the investment products, both the investments and the third party obligations are recorded in the statement of financial position. Financial instrument risk management disclosures in respect of the Life Company's financial instruments are set out in note 15.

(a) Capital

The Group's capital comprises: working capital employed in the Group's general operating activities, investment capital held in excess of operating requirements and other items that are not investible or available for the Group's operating and regulatory requirements. The Group holds sufficient capital to support its business strategy and to meet its regulatory and working capital requirements.

Schroders plc is regulated by the PRA as a consolidated banking group. It is required to maintain minimum Pillar 1 regulatory capital of £583 million (2016: £526 million). The Group's total capital requirement is £799 million (2016: £727 million). In addition the Group is required to hold capital in its insurance entities, and to maintain buffers in accordance with EU regulation. Including these amounts, the Group's overall regulatory capital requirement was £899 million at 31 December 2017 (2016: £773 million). This amount is included within working capital set out in the table below. Reflecting the current regulatory transitional period, the Group's overall regulatory capital requirement increased to £944 million on 1 January 2018 (1 January 2017: £814 million). The Group's regulatory surplus capital, comprising the Group's total equity less regulatory deductions and the regulatory capital requirement, was £1.4 billion (2016: £1.5 billion). The Group and all regulated entities within the Group complied with minimum regulatory capital requirements during the year.

Total capital comprises:

	2017 £m	2016 £m
Working capital – regulatory and other	1,090	879
Working capital – seed and co-investment	392	325
Investment capital – liquid	696	915
Investment capital – illiquid ¹	147	144
Other items ²	1,146	890
Total equity	3,471	3,153

1. Includes RWC Partners Limited and Schroder Ventures Investment Limited associates.

2. Comprises goodwill, intangible assets, pension scheme surplus, other associates and joint ventures and deferred tax.

(i) Working capital

The Group's policy is for subsidiaries to hold sufficient capital to meet their regulatory and working capital requirements and to maintain an appropriate standing with counterparties. Globally, local regulators oversee the activities of, and impose minimum capital and liquidity requirements on the Group's operating entities.

Working capital is also deployed through certain subsidiaries to support new investment strategies and growth opportunities and to co-invest alongside the Group's clients.

(ii) Investment capital

Capital held in excess of working capital requirements is transferred to investment capital where investible. Investment capital is managed with the aim of achieving a low-volatility return. It is mainly held in government and government-guaranteed bonds, investment grade corporate bonds, cash equivalents and funds managed by the Group. These liquid investments are available to support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions. Investment capital also includes certain illiquid legacy investments.

(iii) Other items

Other items comprises assets that are not investible or available to meet the Group's general operating or regulatory requirements. It includes assets that are actually or potentially inadmissible for regulatory capital purposes such as goodwill and intangible assets.

Notes to the accounts

19. Financial instrument risk management continued

The categorisation of the Group's assets and liabilities (the difference between which represents the Group's capital) analysed by accounting treatment is summarised below:

	2017						Total £m
	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss			Available- for-sale £m	
Held for trading £m			Designated as at fair value through profit or loss £m				
Assets							
Cash and cash equivalents	2,947.0	-	-	-	-	-	2,947.0
Trade and other receivables	671.3	-	-	-	-	67.7	739.0
Financial assets – non-debt securities	1,340.5	-	800.4	32.0	73.8	-	2,246.7
Financial assets – debt securities	141.5	10.2	161.3	-	921.1	-	1,234.1
Associates and joint ventures	-	-	-	-	-	143.9	143.9
Property, plant and equipment	-	-	-	-	-	162.8	162.8
Goodwill and intangible assets	-	-	-	-	-	825.8	825.8
Deferred tax	-	-	-	-	-	39.3	39.3
Retirement benefit scheme surplus	-	-	-	-	-	162.9	162.9
Assets backing unit-linked liabilities	651.0	-	-	13,335.4	-	-	13,986.4
Total assets	5,751.3	10.2	961.7	13,367.4	994.9	1,402.4	22,487.9
Liabilities							
Trade and other payables	688.0	-	-	137.6	-	112.1	937.7
Financial liabilities	3,771.4	-	24.2	159.7	-	-	3,955.3
Current tax	-	-	-	-	-	78.1	78.1
Provisions	44.0	-	-	-	-	-	44.0
Deferred tax	-	-	-	-	-	0.1	0.1
Retirement benefit scheme deficits	-	-	-	-	-	15.3	15.3
Unit-linked liabilities	37.5	-	-	13,948.9	-	-	13,986.4
Total liabilities	4,540.9	-	24.2	14,246.2	-	205.6	19,016.9
Capital							3,471.0

	2016						Total £m
	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss			Available- for-sale £m	
Held for trading £m			Designated as at fair value through profit or loss £m				
Assets							
Cash and cash equivalents	3,318.9	-	-	-	-	-	3,318.9
Trade and other receivables	580.8	-	-	-	-	67.4	648.2
Financial assets – non-debt securities	1,134.7	-	501.5	0.7	199.0	-	1,835.9
Financial assets – debt securities	218.9	149.5	318.3	-	582.4	-	1,269.1
Associates and joint ventures	-	-	-	-	-	125.0	125.0
Property, plant and equipment	-	-	-	-	-	66.4	66.4
Goodwill and intangible assets	-	-	-	-	-	607.1	607.1
Deferred tax	-	-	-	-	-	66.0	66.0
Retirement benefit scheme surplus	-	-	-	-	-	118.2	118.2
Assets backing unit-linked liabilities	530.9	-	-	12,396.7	-	-	12,927.6
Total assets	5,784.2	149.5	819.8	12,397.4	781.4	1,050.1	20,982.4
Liabilities							
Trade and other payables	656.7	-	-	122.3	-	104.3	883.3
Financial liabilities	3,764.6	-	22.3	115.1	-	-	3,902.0
Current tax	-	-	-	-	-	71.8	71.8
Provisions	33.1	-	-	-	-	-	33.1
Deferred tax	-	-	-	-	-	0.2	0.2
Retirement benefit scheme deficits	-	-	-	-	-	11.6	11.6
Unit-linked liabilities	37.5	-	-	12,890.1	-	-	12,927.6
Total liabilities	4,491.9	-	22.3	13,127.5	-	187.9	17,829.6
Capital							3,152.8

19. Financial instrument risk management continued

(b) Credit risk, liquidity risk and market risk

Financial instruments give rise to credit, liquidity and market risk exposures. Settlement of financial instruments (on both a principal and agency basis) gives rise to operational risk. The execution and effectiveness of the Group's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Board, with responsibility for oversight delegated to the Audit and Risk Committee. The Group applies the three lines of defence model to risk management, which includes financial instrument risk. More details on this are set out in the Key Risks and Mitigations report and the Audit and Risk Committee report on pages 34 and 56.

(i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge an obligation. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within Pricing risk.

The Group has exposure to credit risk from its normal activities where it is exposed to the risk that a counterparty will be unable to pay, in full, amounts when due. The Group carefully manages its exposure to credit risk by: approving lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for exposures to individual counterparties and sectors; and by taking security. The Group's maximum exposure to credit risk is represented by the carrying value of its financial assets. In addition the Group holds collateral on its loans and advances to clients and certain derivative positions. The Group also holds collateral on some short-term advances to counterparties, as part of its liquidity management. The collateral accepted includes investment-grade securities that can be sold or pledged without default of the provider.

At 31 December 2017 the fair value of collateral which could be sold or pledged but had not been, relating solely to these arrangements, was £591.4 million (2016: £495.5 million).

A breakdown of the Group's relevant financial assets by credit rating is set out below:

	Cash and cash equivalents		Debt securities at amortised cost		Debt securities at fair value	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Credit rating:						
AAA	495.0	533.9	10.2	33.5	191.0	66.2
AA+	39.5	15.9	-	43.1	10.3	10.2
AA	1,051.4	1,178.6	-	63.0	195.3	124.8
AA-	341.4	279.5	10.0	10.0	87.4	57.2
A+	453.9	765.4	40.0	130.0	110.7	65.1
A	410.6	187.5	71.5	80.0	57.8	68.4
A-	54.9	274.1	-	7.3	107.6	117.5
BBB+ and lower	89.2	67.2	20.0	1.5	298.2	336.7
Not rated	11.1	16.8	-	-	24.1	54.6
	2,947.0	3,318.9	151.7	368.4	1,082.4	900.7

Wealth Management activities

All customer credit requests are presented to the relevant Wealth Management approval authorities and counterparty exposures are monitored daily against limits. Loans, overdrafts and advances to clients are secured on a range of assets including real estate (both residential and commercial), cash, client portfolios and life insurance policies. The Group does not usually provide loans, overdrafts and advances to clients on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply. Portfolios held as collateral are marked to market daily and positions compared to clients' exposures. Credit limits are set following an assessment of the market value and lending value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are breached, or if collateral is not sufficient to cover the outstanding exposure.

The amount of change in the year in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is nil (2016: nil) and nil (2016: nil) cumulatively.

Wealth Management takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks and corporates, central banks, supranational banks and sovereigns.

Debt securities held within the Wealth Management treasury book are classified as loans and receivables, held to maturity or available-for-sale financial assets and are unsecured. Policies covering various counterparty and market risk limits are set and monitored by the relevant Wealth Management asset and liability management committees. All instruments held within Wealth Management have an investment grade credit rating.

Other activities

Fee debtors and other receivables arise as a result of the Group's asset management activities and amounts are monitored regularly. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

Fee debtors past due but not yet impaired as at 31 December 2017 were £21.9 million (2016: £29.8 million), the majority of which is less than 90 days past due (2016: less than 90 days past due). Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to pay.

Notes to the accounts

19. Financial instrument risk management continued

The Group seeks to manage its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach and through ongoing credit analysis. Cash is held with well-rated banks, government and government-guaranteed bonds are rated A- or better, corporate bond portfolios have an investment grade mandate, and exposure to sub-investment grade debt is low.

Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Wealth Management entities are invested primarily in current accounts, on deposit with well-rated banks, and invested in money market funds.

(ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost. The Group has a clearly defined liquidity risk management framework in place in the form of a Consolidated Group Internal Liquidity Adequacy Assessment Process (ILAAP). The Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements, and have adequate liquidity for all activities undertaken in the normal course of business. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements.

Wealth Management activities

The principal liquidity risk the Group faces concerns its Wealth Management liabilities where the settlement of deposits can be impacted by client action. The objective of the Group's liquidity policy is to maintain sufficient liquidity within the relevant entities to meet regulatory and prudential requirements, to cover cash flow imbalances and fluctuations in funding, and to ensure the timely repayment of funds to depositors.

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

	2017						Total £m
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	
Assets							
Cash and cash equivalents	2,269.2	-	-	-	-	-	2,269.2
Loans and advances to banks	765.5	-	-	-	-	-	765.5
Loans and advances to clients ¹	339.5	121.1	30.6	45.4	15.9	-	552.5
Debt securities	399.9	124.8	-	-	-	-	524.7
Other financial assets	11.4	-	-	-	-	-	11.4
Total financial assets	3,785.5	245.9	30.6	45.4	15.9	-	4,123.3
Liabilities							
Client accounts	3,635.3	39.0	1.1	10.3	-	-	3,685.7
Deposits by banks	57.7	-	-	-	-	-	57.7
Other financial liabilities	11.1	-	-	-	-	-	11.1
Total financial liabilities	3,704.1	39.0	1.1	10.3	-	-	3,754.5
Cumulative gap	81.4	288.3	317.8	352.9	368.8	368.8	368.8
	2016						
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Assets							
Cash and cash equivalents	2,622.9	-	-	-	-	-	2,622.9
Loans and advances to banks	598.8	-	-	-	-	-	598.8
Loans and advances to clients ¹	334.5	48.5	75.0	9.7	47.0	-	514.7
Debt securities	365.5	2.9	-	-	-	-	368.4
Other financial assets	17.1	0.1	-	-	-	-	17.2
Total financial assets	3,938.8	51.5	75.0	9.7	47.0	-	4,122.0
Liabilities							
Client accounts	3,632.2	11.7	43.0	1.8	11.6	-	3,700.3
Deposits by banks	62.5	-	-	-	-	-	62.5
Other financial liabilities	14.8	1.4	-	-	-	-	16.2
Total financial liabilities	3,709.5	13.1	43.0	1.8	11.6	-	3,779.0
Cumulative gap	229.3	267.7	299.7	307.6	343.0	343.0	343.0

1. Includes loans and advances to clients held at fair value through profit or loss of £0.6 million (2016: £0.6 million).

19. Financial instrument risk management continued

Other activities

Liquidity risk in the rest of the Group is low. Excluding the Life Company and consolidated funds, the Asset Management and Group segment together hold cash and cash equivalents of £640.6 million (2016: £664.0 million). Financial liabilities relating to other operating entities are £200.8 million (2016: £123.0 million), the majority of which are current.

The Group has a committed loan facility of £510.0 million (2016: £200.0 million) that expires on 4 October 2022 and £1.0 million (2016: £1.8 million) of loan notes as part of the acquisition of Cazenove Capital that are repayable on 12 July 2018 and subject to early redemption rights in certain circumstances.

(iii) Market risk

Market risk is the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates.

Pricing risk

Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital, seed and co-investment capital, deferred employee compensation in the form of fund awards and some investments held for regulatory capital purposes. However, the more significant risk is the impact on the Group's fee income as this is principally determined on percentages of the fair value of AUM. This risk cannot be easily mitigated but is addressed to some extent by ongoing net new business.

The Group does not hedge exposure to pricing risk except for seed capital, where practical to do so, and also in respect of deferred employee compensation awards in the form of interests in funds managed by the Group. Where financial instruments are held to hedge deferred compensation awards this is normally offset by changes in the amounts payable to employees (see note 5).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

Wealth Management activities

In Wealth Management, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis. Interest rate risk is managed within the set limits by matching asset and liability positions and through the use of interest rate swaps.

Sensitivity-based and stress-based models are used for monitoring interest rate risk. These involve assessing the impact of a prescribed basis point rise in interest rates, together with extreme scenarios for the stress tests. The impact is calculated regularly for each currency and in aggregate.

Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months and is not exposed to significant interest rate risk.

The Group's capital includes investments in government bonds and corporate investment-grade bonds managed by the Group's fixed income fund managers. The market risk (including interest rate risk) exposure of these investments is actively monitored against limits set by the Group Capital Committee.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

Wealth Management activities

In Wealth Management, some loans and advances to clients, client deposits and a proportion of the treasury activities are undertaken in foreign currencies. This is managed by the treasury departments within agreed limits that are set and monitored by the relevant risk committees.

Other activities

The Group's policy in relation to revenue, expenditure and capital currency exposure in Asset Management activities is generally not to hedge. The Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered to be a normal part of the Group's business activities.

The Group also has exposure to foreign currency through investments in currencies other than sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement, as appropriate. The use of such instruments is subject to the approval of the GCC.

Notes to the accounts

19. Financial instrument risk management continued

The Group's gross and net exposure to foreign currencies is set out below:

	2017			2016		
	Gross exposure £m	Hedged £m	Net exposure £m	Gross exposure £m	Hedged £m	Net exposure £m
Swiss franc	317	-	317	170	-	170
US dollar	310	(34)	276	360	(61)	299
Euro	203	(4)	199	196	(5)	191
Singapore dollar	136	-	136	129	-	129
Chinese renminbi	90	-	90	75	-	75
Hong Kong dollar	64	-	64	63	-	63
Australian dollar	24	-	24	30	-	30
Other	105	-	105	105	(1)	104
Total currency exposures	1,249	(38)	1,211	1,128	(67)	1,061
Sterling	2,222	38	2,260	2,025	67	2,092
	3,471	-	3,471	3,153	-	3,153

The sensitivities to market risk are estimated as follows:

Variable ¹		31 December 2017			31 December 2016		
		A reasonable change in the variable within the next calendar year %	Increase/ (decrease) in post-tax profit £m	Increase/ (decrease) in other components of equity £m	A reasonable change in the variable within the next calendar year %	Increase/ (decrease) in post-tax profit £m	Increase/ (decrease) in other components of equity £m
Interest rates ²	-increase	0.50	3	-	0.50	4	-
	-decrease	(0.50)	(3)	-	(0.25)	(2)	-
US dollar against sterling	-strengthen	10	1	18	10	1	19
	-weaken	(8)	(1)	(14)	(6)	(1)	(14)
Euro against sterling	-strengthen	10	6	13	7	4	9
	-weaken	(6)	(4)	(8)	(8)	(4)	(9)
FTSE-All Share Index ³	-increase	20	14	1	20	6	27
	-decrease	(20)	(14)	(1)	(20)	(32)	1

1. The underlying assumption is that there is one variable increase/decrease with all other variables held constant.

2. Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

3. Assumes that changes in the FTSE-All Share Index correlate to changes in the fair value of the Group's equity investments. This sensitivity analysis includes the impact of the Group's adoption of IFRS 9 'Financial Instruments' on 1 January 2018 (see page 143).

These sensitivities concern only the impact on financial instruments and exclude indirect impacts of the variable on fee income and certain costs which may be affected by the variable. The changes used in the sensitivity analysis were provided by the Group's Global Economics team who determine reasonable assumptions.

20. Derivative contracts

(a) The Group's use of derivatives

The Group holds derivatives for risk management, client facilitation, and within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on receivables and payables in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to help establish a new product rather than gain additional market exposure. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

Risk management: the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal risk that the Group faces through such use of derivative contracts is credit risk.

Client facilitation: the Group's Wealth Management entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients. In carrying out this business, they transact as agent or as principal in financial assets and liabilities (including derivatives) in order to facilitate client portfolio requirements. Wealth Management's policy is to hedge, as appropriate, exchange rate and interest rate risk on its client facilitation positions. This does not eliminate the possibility of credit risk.

For details of how the Group manages its exposure to credit risk, see (b) below and note 19.

20. Derivative contracts continued

(b) Derivatives used by the Group

Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except in the case of certain currency swaps. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties in accordance with its internal policies and procedures.

Foreign exchange, equity and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty.

The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Futures contracts are standardised contracts to buy or sell specified assets for an agreed price at a specified future date. Contracts are negotiated at a futures exchange which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values are set out below:

	2017		2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate contracts	-	-	0.2	(0.1)
Forward foreign exchange contracts	22.1	(11.8)	21.3	(19.0)
Equity contracts	23.2	(12.4)	18.9	(3.2)
	45.3	(24.2)	40.4	(22.3)
	2017		2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Net-settled derivative contracts ¹ maturing/repricing ² in:				
Less than 1 year	9.8	(12.4)	1.9	(3.3)
1 – 3 years	-	-	0.1	-
3 – 5 years	13.4	-	-	-
More than 5 years	-	-	17.1	-
	23.2	(12.4)	19.1	(3.3)
Gross-settled derivatives ³ maturing/repricing ² in:				
Less than 1 year:				
Gross inflows	1,283.8	813.5	896.5	1,605.0
Gross outflows	(1,273.2)	(817.9)	(892.1)	(1,609.1)
Difference between future contractual cash flows and fair value	11.5	(7.4)	16.9	(14.9)
	22.1	(11.8)	21.3	(19.0)
	45.3	(24.2)	40.4	(22.3)

1. Comprise interest rate and equity contracts.

2. Whichever is earlier.

3. Comprise forward exchange contracts.

Notes to the accounts

21. Share capital and share premium

Share capital represents the number of issued ordinary and non-voting ordinary shares in Schroders plc multiplied by their nominal value of £1 each. Share premium substantially represents the aggregate of all amounts that have ever been paid above nominal value to Schroders plc when it has issued ordinary and non-voting ordinary shares. There are certain circumstances in which the share premium can be reduced but these have not arisen in 2016 or 2017. The Company has no authority to issue, buy back, or cancel ordinary shares in issue (including those held in trust) and has authority limited by shareholder resolution to issue or purchase non-voting ordinary shares, which may either be cancelled or held in treasury.

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2017	282.7	226.0	56.7	282.7	124.2
Shares cancelled	(0.2)	-	(0.2)	(0.2)	-
At 31 December 2017	282.5	226.0	56.5	282.5	124.2

During the year, 233,623 non-voting ordinary shares were bought back by the Group for a value of £5.4 million and cancelled.

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2016	282.5	226.0	56.5	282.5	119.4
Shares issued	0.2	-	0.2	0.2	4.8
At 31 December 2016	282.7	226.0	56.7	282.7	124.2

On 21 December 2016, Schroders plc issued 233,623 non-voting ordinary shares as part of the consideration paid for the acquisition of Benchmark Capital Limited.

	2017 Number of shares Millions	2016 Number of shares Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.7
	282.5	282.7

The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

22. Own shares

Own shares are recorded by the Group when non-voting ordinary shares are acquired by the Company, or ordinary or non-voting ordinary shares are acquired through employee benefit trusts. There are two main reasons why this may happen: first, the Group may wish to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Second, it enables the Group to meet share-based remuneration awards to employees in the form of shares (see note 26) in a way that does not dilute the percentage holdings of existing shareholders. Own shares are held at cost and their purchase reduces the Group's net assets by the amount spent. When shares vest unconditionally or are cancelled, they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements in own shares during the year were as follows:

	2017 £m	2016 £m
At 1 January	(163.6)	(175.5)
Own shares purchased	(56.6)	(59.1)
Own shares cancelled	5.4	-
Awards vested	52.5	71.0
At 31 December	(162.3)	(163.6)

During the year 1.8 million own shares (2016: 2.2 million own shares) were purchased and held for hedging share-based awards. 2.4 million shares (2016: 3.3 million shares) awarded to employees vested in the period and were transferred out of own shares.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2017			2016		
	Number of vested shares Millions	Number of unvested shares Millions	Total Millions	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.0	6.9	8.9	2.0	7.5	9.5
Non-voting ordinary shares	0.2	0.1	0.3	0.2	0.1	0.3
	2.2	7.0	9.2	2.2	7.6	9.8

	2017			2016		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	32.4	160.6	193.0	31.2	161.3	192.5
Fair value	67.2	243.2	310.4	61.2	224.8	286.0
Non-voting ordinary shares:						
Cost	2.6	1.7	4.3	2.3	2.3	4.6
Fair value	5.6	2.4	8.0	4.7	3.0	7.7
Total:						
Cost	35.0	162.3	197.3	33.5	163.6	197.1
Fair value	72.8	245.6	318.4	65.9	227.8	293.7

Notes to the accounts

23. Reconciliation of net cash from operating activities

This note should be read in conjunction with the Consolidated cash flow statement. It provides a reconciliation to show how profit before tax, which is based on accounting rules, translates to cash flows.

	2017 £m	2016 £m
Profit before tax	760.2	618.1
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	63.4	46.4
Net gains taken through the income statement on financial instruments	(22.1)	(45.0)
Share-based payments	60.5	51.5
Net charge for provisions	12.6	8.3
Other non-cash movements	(9.6)	(6.1)
	104.8	55.1
Adjustments for which the cash effects are investing activities:		
Net finance income	(9.7)	(18.8)
Share of profit of associates and joint ventures	(21.7)	(19.5)
	(31.4)	(38.3)
Adjustments for statement of financial position movements:		
Increase in loans and advances within Wealth Management	(236.4)	(232.9)
Increase in trade and other receivables	(43.2)	(70.7)
Increase in deposits and customer accounts within Wealth Management	38.9	550.4
Increase/(decrease) in trade and other payables, other financial liabilities and provisions	35.2	(42.2)
	(205.5)	204.6
Adjustments for Life Company movements:		
Net increase in financial assets backing unit-linked liabilities	(953.0)	(1,744.1)
Net increase in unit-linked liabilities	1,058.8	1,607.7
	105.8	(136.4)
Tax paid	(148.8)	(139.4)
Net cash from operating activities	585.1	563.7

24. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but which do not yet represent a liability. Commitments at the year end do not impact on the Group's financial results for the year.

The Group leases office space and equipment. Lease agreements can commit the Group to significant future expenditure and the table below discloses the Group's commitments to make such payments. Such commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate.

The Group sublets a small number of its owned and leased properties where such properties, or parts of such properties, are not required for use by the Group. The table below discloses the commitments sub-lessees have made in respect of such arrangements. These commitments are not recorded on the statement of financial position in advance of the period to which they relate. However, they may be used to determine the onerous lease provision if the rental income does not equal or exceed the Group's own rental obligation (see note 18).

	2017			Total £m
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	
Operating leases as lessee	37.9	127.5	337.4	502.8
Undrawn loan facilities	5.4	7.9	27.4	40.7
Investment call commitments	23.2	12.7	1.3	37.2
Commitments for purchase of property, plant and equipment	48.6	-	-	48.6
Commitments under IT service agreements	22.7	62.0	7.0	91.7
Total commitments	137.8	210.1	373.1	721.0
Operating leases receivable as lessor	(2.1)	(4.5)	(0.6)	(7.2)
Net commitments payable	135.7	205.6	372.5	713.8
	2016			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	35.3	113.9	375.6	524.8
Undrawn loan facilities	13.2	-	-	13.2
Investment call commitments	16.9	-	-	16.9
Commitments for purchase of property, plant and equipment	92.8	4.7	-	97.5
Commitments under IT service agreements	7.5	47.6	19.0	74.1
Total commitments	165.7	166.2	394.6	726.5
Operating leases receivable as lessor	(1.7)	(1.8)	(0.9)	(4.4)
Net commitments payable	164.0	164.4	393.7	722.1

Leases in respect of office properties are negotiated for a weighted average term of 14.3 years (2016: 13.8 years) and rentals are fixed for a weighted average term of 5.8 years (2016: 5.1 years). Leases in respect of office equipment are negotiated for a weighted average term of 1.6 years (2016: 2.0 years) and rentals are fixed for a weighted average term of 1.6 years (2016: 1.9 years).

Office property sub-leases have a weighted average term of 4.2 years (2016: 5.0 years) and rentals are fixed for a weighted average term of 4.2 years (2016: 5.0 years). Lease payments recognised as an expense during the year were £43.6 million (2016: £40.2 million).

Notes to the accounts

25. Retirement benefit obligations

The Group has two types of pension benefit for employees: defined benefit (DB) where the Group has an obligation to provide participating employees with pension payments that represent a specified percentage of their final salary for each year of service, and defined contribution (DC), where the Group's contribution to an employee's pension is measured as, and limited to, a specified percentage of salary.

Accounting for DB schemes requires an assessment of the likely quantum of future pension payments to be made. If ring-fenced assets are held specifically to meet this cost, the scheme is funded, and if not, it is unfunded. The Group periodically reviews its funded DB schemes using actuarial specialists to assess whether it is on course to meet the expected pension payments that current and former employees are or will be entitled to. In the case of a projected shortfall, a plan must be formulated to reverse the deficit.

The income statement charge or credit represents the sum of pension entitlements earned by employees in the period, plus a notional net interest charge (if the scheme is in deficit) or income (if it is in surplus) based on the market yields on high quality corporate bonds. Experience differences, principally the difference between actual investment returns and the notional interest amount, as well as actuarial changes in estimating the present value of future liabilities, are recorded in other comprehensive income.

Assets or liabilities recognised in the statement of financial position represent the differences between the fair value of plan assets (if any) and the actuarially-determined estimates of the present value of future liabilities. The Group closed its largest DB scheme to future accrual on 30 April 2011, although it still operates some small unfunded schemes overseas. This means that no future service will contribute to the closed scheme member benefits but those members continue to have the benefits determined by the Scheme rules as at 30 April 2011.

The Group's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employment ceases. The income statement charge represents the contributions the Group has agreed to make into employees' pension schemes in that period.

The disclosures within this note are provided mainly in respect of the principal DB scheme which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme).

The income statement charge for retirement benefit costs is as follows:

	2017 £m	2016 £m
Pension costs – defined contribution plans	42.8	40.4
Pension credit – defined benefit plans	(1.5)	(2.7)
Other post-employment benefits	0.2	0.2
	41.5	37.9

(i) Profile of the Scheme

The Scheme is administered by a Trustee company, Schroder Pension Trustee Limited. The board of the Trustee company comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for setting the investment strategy and for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for making investment strategy recommendations to the board of the Trustee and for monitoring the performance of the investment manager.

Under the Scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011 (the date the DB section of the Scheme closed for future accrual), actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5% for pensions accrued after 12 August 2007 and 5.0% for pensions accrued before that date.

As at 31 December 2017, there were no active members in the DB section (2016: nil) and 1,828 active members in the DC section (2016: 1,753). The weighted average duration of the Scheme's DB obligation is 21 years (2016: 21 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2017	2016
Number of deferred members	1,418	1,535
Total deferred pensions (at date of leaving Scheme)	£10.9m per annum	£13.2m per annum
Average age (deferred)	52	51
Number of pensioners	829	796
Average age (pensioners)	69	69
Total pensions in payment	£18.9m per annum	£18.1m per annum

(ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2014. The funding level at that date was 109% on the technical provisions basis and no contribution to the Scheme was required (2016: nil). The next triennial valuation is due as at 31 December 2017 and will be performed in 2018.

25. Retirement benefit obligations continued

(iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes, as detailed below, an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets such as swaps which perform in line with the liabilities of the Scheme so as to protect against inflation and/or interest rates being higher than expected.

The most significant risks that the Scheme exposes the Group to are:

Asset Volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this may create a deficit. The Group manages this risk by holding 50.7% (2016: 51.4%) of Scheme assets in an LDI portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but which can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collateralised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is BBB.

Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2017, the LDI portfolio was designed to mitigate 73% (2016: 74%) of the Scheme's exposure to changes in gilt yields.

Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place to protect against inflation. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2017, the LDI portfolio was designed to mitigate 73% (2016: 74%) of the Scheme's exposure to inflation risk.

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

(iv) Reporting at 31 December

The principal financial assumptions used for the Scheme were as listed below:

	2017 %	2016 %
Discount rate	2.6	2.7
RPI inflation rate	3.3	3.4
CPI inflation rate	2.2	2.3
Future pension increases (for benefits earned before 13 August 2007)	3.1	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.2	2.2
Average number of years a current pensioner is expected to live beyond age 60:		
Men	28	29
Women	30	30
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	29	30
Women	31	32

The net interest for pension costs is determined by applying the corporate bond rate to the opening net surplus in the Scheme. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality, long dated corporate bonds that are denominated in the currency in which the benefits will be paid.

Notes to the accounts

25. Retirement benefit obligations continued

Estimates and judgements

The Group estimates the carrying value of the Scheme through applying the assumptions set out on page 133. The sensitivity to those assumptions is set out below. The most significant judgemental assumption relates to mortality rates which are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.0% (2016: 1.5%) per annum.

Mortality tables for male pensioners are scaled back by 5% and female pensioners are scaled back by 10% to reflect the history of longer life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2017.

The amounts recognised in the income statement are:

	2017 £m	2016 £m
Interest income on Scheme assets	(28.0)	(34.6)
Interest cost on Scheme liabilities	24.8	30.2
Net interest income recognised in the income statement in respect of the Scheme	(3.2)	(4.4)
Income statement charge in respect of other defined benefit schemes	1.7	1.7
Total defined benefit schemes income statement credit	(1.5)	(2.7)

The amounts recognised in the statement of comprehensive income are:

	2017 £m	2016 £m
Return on Scheme assets in excess of that recognised in interest income	(20.6)	(174.3)
Actuarial gains due to change in demographic assumptions	(27.2)	(16.5)
Actuarial losses due to change in financial assumptions	1.7	202.7
Actuarial losses/(gains) due to experience	4.6	(10.3)
Total other comprehensive (income)/loss in respect of the Scheme	(41.5)	1.6
Other comprehensive (income)/losses in respect of other defined benefit schemes	(0.8)	0.4
Total other comprehensive (income)/losses in respect of defined benefit schemes	(42.3)	2.0

The sensitivity of the Scheme pension liabilities to changes in assumptions is as follows:

Assumption	Assumption change	2017		2016	
		Estimated (increase)/reduction in pension liabilities £m	Estimated (increase)/reduction in pension liabilities %	Estimated (increase)/reduction in pension liabilities £m	Estimated (increase)/reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	93.6	10.8	98.2	10.1
Discount rate	Decrease by 0.5% per annum	(102.1)	(11.8)	(107.1)	(11.0)
Expected rate of pension increases	Increase by 0.5% per annum	(79.7)	(9.2)	(83.9)	(8.6)
Expected rate of pension increases	Decrease by 0.5% per annum	74.9	8.6	78.4	8.0
Life expectancy	Reduce by one year	33.4	3.9	35.3	3.6

25. Retirement benefit obligations continued

Movements in respect of the assets and liabilities of the Scheme are:

	2017 £m	2016 £m
At 1 January	1,093.2	936.5
Interest on assets	28.0	34.6
Remeasurement of assets	20.6	174.3
Benefits paid	(112.6)	(52.2)
Fair value of plan assets	1,029.2	1,093.2
At 1 January	(975.0)	(821.1)
Interest cost	(24.8)	(30.2)
Actuarial gains due to change in demographic assumptions	27.2	16.5
Actuarial losses due to change in financial assumptions	(1.7)	(202.7)
Actuarial (losses)/gains due to experience	(4.6)	10.3
Benefits paid	112.6	52.2
Present value of funded obligations	(866.3)	(975.0)
Net assets	162.9	118.2

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2017, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

The fair value of the Scheme assets at the year end date is analysed as follows:

	2017		2016	
	Value £m	Of which not quoted in an active market £m	Value £m	Of which not quoted in an active market £m
Liability-driven investments	521.8	1.6	562.0	20.7
Bonds (excluding those held as part of the liability-driven investment portfolio)	99.1	-	128.9	-
Portfolio funds	369.1	10.9	359.3	-
Exchange-traded futures and over-the-counter derivatives	2.1	1.5	0.4	36.8
Cash	37.1	-	42.6	-
	1,029.2	14.0	1,093.2	57.5

26. Share-based payments

Share-based payments are remuneration payments to selected employees that take the form of an award of shares in Schroders plc. Employees are generally not able to exercise such awards in full until three years after the award has been made, although conditions vary between different types of award. The accounting for share-based awards settled by transferring shares to the employees (equity-settled) differs from the accounting for similar awards settled in cash (cash-settled). The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date or, in the case of grandfathered awards arising on business combinations, the fair value of the share awards at the acquisition date. Such awards can include share options or share awards which may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This initial fair value is charged to the income statement reflecting benefits received from employment, where relevant, in the performance period and over the vesting period. The income statement charge is offset by a credit to the statement of changes in equity, where the award is expected to be settled through the issue of shares. Such awards constituted 7.7% (2016: 7.2%) of salaries and other remuneration.

The Group may make share-based payments to employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares. These arrangements involve a maximum term of 10 years.

It is the Group's practice to hedge all awards to eliminate the impact of changes in the market value of shares between the grant date and the exercise date.

Awards that lapse or are forfeited during the vesting period result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

Notes to the accounts

26. Share-based payments continued

The Group recognised total expenses of £62.0 million (2016: £52.4 million) arising from share-based payment transactions during the year, of which £60.5 million (2016: £51.5 million) were equity-settled share-based payment transactions. There were no exceptional costs included within equity-settled share-based payments during 2017 (2016: £0.9 million).

The Group has the following share-based payment arrangements (further details of the current schemes may be found in the Remuneration report):

(a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares at the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. The award is structured as a nil-cost option.

	2017		2016	
	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	6.9	0.3	6.9	0.2
Granted	1.7	-	2.1	0.1
Forfeited	(0.1)	-	(0.1)	-
Exercised	(2.0)	-	(2.0)	-
Rights outstanding at 31 December	6.5	0.3	6.9	0.3
Vested	1.7	0.2	1.9	0.2
Unvested	4.8	0.1	5.0	0.1
Weighted average fair value of share granted (£)	30.97	22.54	26.26	20.35
Weighted average share price at dates of exercise (£)	32.05	22.91	27.13	20.91

The weighted average exercise price per share is nil.

A charge of £35.8 million (2016: £42.3 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Compensation Plan to be expensed in future years:

	£m
2018	13.5
2019	4.7
2020	0.6
	18.8

(b) Deferred Award Plan

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. The fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting periods of the awards. Typically, one third of an award will vest and become exercisable on each of the first, second and third anniversaries of the grant date. The award is structured as a nil-cost option.

A charge of £14.2 million (2016: nil) was recognised during the financial year. This relates to performance year 2017 for awards which are expected to be granted in March 2018.

(c) Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value to the income statement over a five-year vesting period. Fair value is determined at the date of grant and is equal to the market value at that time. The award is structured as a nil-cost option.

26. Share-based payments continued

	2017 Number of ordinary shares Millions	2016 Number of ordinary shares Millions
Rights outstanding at 1 January	2.1	2.1
Granted	0.2	0.4
Forfeited	(0.1)	(0.1)
Exercised	(0.1)	(0.3)
Rights outstanding at 31 December	2.1	2.1
Vested	0.2	0.2
Unvested	1.9	1.9
Weighted average fair value of share granted (£)	34.52	27.60
Weighted average share price at dates of exercise (£)	33.44	26.11

The weighted average exercise price per share is nil.

A charge of £8.5 million (2016: £7.7 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2018	9.1
2019	6.4
2020	3.7
2021	2.2
2022	0.7
	22.1

(d) Long Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares at the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year end date of the extent to which the performance conditions are expected to be met. The award is structured as a nil-cost option.

	2017		2016	
	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	0.4	0.1	0.8	0.1
Granted	-	-	-	-
Forfeited	(0.1)	-	(0.2)	-
Exercised	(0.1)	-	(0.2)	-
Rights outstanding at 31 December - unvested	0.2	0.1	0.4	0.1
Weighted average fair value of share granted (£)	27.26	-	23.03	17.21
Weighted average share price at dates of exercise (£)	31.11	-	26.98	21.52

The weighted average exercise price per share is nil.

A charge of £0.4 million (2016: £0.9 million credit) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Long Term Incentive Plan to be expensed in future years:

	£m
2018	0.3
2019	0.2
2020	0.1
	0.6

Notes to the accounts

26. Share-based payments continued

(e) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase up to a maximum of £100 per month. The shares vest after one year.

Pursuant to this plan, the Group purchased 52,796 ordinary shares in 2017 (2016: 59,933) at a weighted average share price of £32.51 (2016: £26.42). A charge of £1.6 million (2016: £1.5 million) was recognised during the financial year.

(f) Restricted and Growth Share Plan

Awards under this plan were made by Cazenove Capital in June 2011 to certain employees. Following the Group's acquisition of Cazenove Capital in 2013, the awards were modified to be settled in ordinary and non-voting ordinary shares of Schroders plc. The awards did not have performance conditions attached and vested in three equal tranches between three and five years from the date of award. The Group does not intend to make any further awards under the Plan. The fair value of awards made under the Plan at the acquisition date was spread over the performance and vesting periods. The fair value, at the acquisition date, of the award attributable to the pre-acquisition part of the vesting period formed part of the cost of acquisition and was not charged to the income statement. There were no outstanding awards under this plan as at 31 December 2016 and this plan is now closed.

	2017		2016	
	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	-	-	0.5	0.5
Exercised	-	-	(0.5)	(0.5)
Rights outstanding at 31 December – unvested	-	-	-	-
Weighted average share price at dates of exercise (£)	-	-	26.70	20.23

A charge of £0.9 million was recognised in 2016 and included within exceptional items.

27. Related party transactions

Transactions between the Group and parties related to the Group are required to be disclosed to the extent that they are necessary for an understanding of the potential effect of the relationship on the financial statements. Other disclosures, such as key management personnel compensation, are also required.

The Group is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under accounting standards.

As a result the related parties of the Group are members of the Group, including associates and joint ventures, key management personnel, close family members of key management personnel and any entity controlled by those parties.

Cash transactions with associates or joint ventures are reported in the Consolidated cash flow statement and in note 11. During 2016, the Group provided a £2.1 million unsecured loan facility to NEOS which expires on 22 March 2021. At 31 December 2017, NEOS had fully drawn down this facility (2016: £1.3 million).

£66.9 million (2016: £20.7 million) was held in customer accounts. All amounts were payable to key management personnel or their related parties.

Some of the plan assets of the Schroders Retirement Benefit Scheme are invested within Life funds controlled by the Group. At 31 December 2017, the fair value of these assets was £244.4 million (2016: £231.0 million).

Peter Harrison has an interest in 100,252 shares (2016: 100,252) in an associate of the Group, RWC Partners Limited, representing 5.1% (2016: 5.1%) of its issued share capital.

Transactions between the Group and its related parties were made at market rates. Any amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

27. Related party transactions continued

Key management personnel compensation

Key management personnel are defined as members of the Board or the Group Management Committee. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2017 £m	2016 £m
Short-term employee benefits	Salary and upfront bonus	21.8	27.4
Share-based payments	Deferred share awards	10.7	8.7
Other long-term benefits	Deferred cash awards	11.3	13.5
Termination benefits	Termination benefits	0.5	3.4
Post-employment benefits	Pension plans	0.1	0.2
		44.4	53.2

The remuneration of key management personnel is based on individual performance and market rates. The remuneration policy (which applies to Directors and management) is described in more detail in the Remuneration report.

28. Interests in structured entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group's interests in consolidated and unconsolidated structured entities are described below.

The Group has interests in structured entities as a result of contractual arrangements arising from its principal activity, the management of assets on behalf of its clients. AUM, excluding deposits by Wealth Management clients and some segregated client portfolios held within the Institutional channel of the Group's Asset Management business, are managed within structured entities. These structured entities typically consist of investment vehicles such as Open Ended Investment Companies, Authorised Unit Trusts, Limited Partnerships and Sociétés d'Investissement à Capital Variable, which entitle investors to a percentage of the vehicle's net asset value. The vehicles are financed by the purchase of units or shares by investors. The Group also has interests in structured entities through proprietary investments. These are mainly into vehicles which help facilitate the Group's stated aim of generating a return on investment capital and when it deploys seed and co-investment capital in developing new investment strategies. The Group does not have any contractual relationships with, or interests in, structured entities related to AUA. Additionally, the Group holds interests in structured entities for liquidity management purposes, for example via investments in money market funds.

The Group does not guarantee returns on the investments it manages or commit to financially support its structured entities. A small proportion of the Group's AUM, principally real estate funds, are permitted to raise finance through loans from banks and other financial institutions. Where external finance is raised, the Group does not provide a guarantee for the repayment of any borrowings.

The business activity of all structured entities in which the Group has an interest, is the management of assets in order to generate investment returns for investors from capital appreciation and/or investment income. The Group earns a management fee from its structured entities, normally based on a percentage of the entity's net asset value, committed capital value or gross asset value and, where contractually agreed, a performance fee, based on outperformance against predetermined benchmarks. In addition, where the Group owns a proportion of the structured entity it is entitled to receive investment returns.

(a) Interests arising from managing assets

The Group's interests in structured entities arising as a result of contractual relationships from its principal activity, the management of assets on behalf of its clients, are reflected in the Group's AUM.

	2017			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	
Asset Management	180.4	12.3	197.1	389.8
Wealth Management	39.7	–	6.2	45.9
	220.1	12.3	203.3	435.7

	2016			Total £bn
	AUM outside of structured entities £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn	
Asset Management	173.7	10.8	161.9	346.4
Wealth Management	33.8	–	5.8	39.6
	207.5	10.8	167.7	386.0

Notes to the accounts

28. Interests in structured entities continued

Certain AUM is managed in pooled vehicles that are not considered to be structured entities. Within Asset Management, this occurs either because it is formed of segregated investment portfolios for Institutional clients comprising directly-held investments in individual financial instruments, or because the voting structures of the vehicles themselves allow the investment manager to be removed without cause. Within Wealth Management AUM is not considered to be within structured entities due to contractual relationships existing with clients rather than structured entities, for example discretionary and advisory asset management and banking services. In addition, Wealth Management AUM in the form of loans and advances to customers is conducted outside of structured entities.

Certain structured entities are deemed to be controlled by the Group and are accounted for as subsidiaries and consolidated in accordance with IFRS 10. AUM within consolidated structured entities represents the net assets of the beneficial interest in the consolidated structured entity owned by third parties.

AUM within unconsolidated structured entities constitutes the remaining balance, represented principally by the net asset value of pooled vehicles managed for Intermediary clients, as well as some assets invested in pooled vehicles on behalf of Institutional and Wealth Management clients. The Group's beneficial interest in structured entities is not included within AUM and is described separately below.

The Group has no direct exposure to losses in relation to the AUM reported above, as the investment risk is borne by clients. The main risk the Group faces from its interest in AUM managed on behalf of clients is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependant on market sentiment, asset performance and investor considerations.

Fee income includes £1,367.6 million (2016: £1,182.3 million) of fees from structured entities managed by the Group. The table below shows the carrying value of the Group's interests in structured entities as a result of its management of assets, where income is accrued over the period for which assets are managed before being invoiced. The carrying value represents the Group's maximum exposure to loss from these interests.

	2017 £m	2016 £m
Fee debtors ¹	16.5	16.8
Accrued income ¹	192.5	156.9
Total exposure due to asset management activities	209.0	173.7

1. Recognised in trade and other receivables.

(b) Interest arising from the Group's investment in unconsolidated structured entities

The table below shows the carrying values of the Group's proprietary investments in unconsolidated structured entities, which resulted in net gains on financial instruments and other income of £9.4 million (2016: £7.5 million). The carrying values represent the Group's maximum exposure to loss from these interests.

	2017 £m	2016 £m
Cash and cash equivalents	103.0	320.0
Financial assets	588.1	478.2
Total exposure due to the Group's investments	691.1	798.2

The Group's proprietary investments include interests in unconsolidated structured entities in the form of cash and cash equivalents and financial assets. Cash and cash equivalents comprise investments in money market funds, of which £26.5 million (2016: £30.2 million) is managed by the Group. Financial assets comprise investments in pooled vehicles and legacy private equity investments and include seed and co-investment capital and hedges of deferred cash awards (see note 16). Of the financial assets, £583.6 million (2016: £470.2 million) is invested in funds managed by the Group. The Group has no interest apart from its role as investor in those funds for which it does not act as manager. The main risk the Group faces from its interests in unconsolidated structured entities arising from proprietary investments is that the investments will decrease in value. Note 19 includes further information on the Group's exposure to market risk arising from proprietary investments.

Following the Group's acquisition of Adveq Holding AG (see note 29), the Group has a contractual obligation to provide 1% of committed capital to certain structured entities of the acquiree. See note 24 for the Group's investment call commitments at 31 December 2017.

The Group's statement of financial position also includes the Life Company assets of £13,986.4 million (2016: £12,927.6 million), which are included in the AUM information presented on page 139. The exposure to the risks and rewards associated with these assets is borne by unit-linked policyholders, or, where Life Company funds are consolidated, third party investors in those funds.

Financial support for consolidated structured entities where there is no contractual obligation to do so

The Group supports some of its funds through the injection of seed capital in order to enable the funds to establish a track record before they are more widely marketed. During the year, the Group purchased units at a cost of £189.4 million (2016: £129.6 million) to provide seed capital to investment funds managed by the Group, of which £162.2 million (2016: £114.0 million) resulted in the consolidation of those funds, and £27.2 million (2016: £15.6 million) did not.

29. Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and any equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest (NCI) in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The Group completed five business combinations during the year.

The most significant of these transactions completed on 31 July 2017 when the Group acquired 100% of the issued share capital of Adveq Holding AG (Adveq), a Swiss-registered holding company of a private equity management group for a total consideration of £141.3 million. The acquisition contributed £6.0 billion of Asset Management AUM and strengthens the Group's private assets capabilities.

On 17 February 2017, the Group acquired the discretionary wealth management business of C. Hoare & Co. for a consideration of £72.0 million. The acquisition contributed £2.5 billion of discretionary Wealth Management AUM and increases the Group's scale and capability for its UK private clients.

On 1 September 2017 and 4 December 2017, Benchmark Capital, a 65% subsidiary of the Group, acquired 100% of the issued share capital of Brian Potter Consultants Limited and Alderbrook Financial Planning Limited respectively. The combined consideration for these transactions was £2.1 million.

On 1 November 2017, the Group acquired 100% of the issued share capital of Chilcomb Wealth Ltd, a UK-based wealth manager, for a consideration of £1.7 million.

Net assets acquired

The fair values of the net assets acquired in the transactions together with the goodwill and intangible assets arising are as follows:

	Adveq £m	C. Hoare & Co. ² £m	Other £m	Total £m
Net assets acquired:				
Cash	11.3	–	0.6	11.9
Trade and other receivables	26.4	–	0.1	26.5
Other assets	39.3	–	–	39.3
Trade and other payables	(23.8)	–	(0.1)	(23.9)
Other liabilities	(38.4)	–	(0.1)	(38.5)
Tangible net assets	14.8	–	0.5	15.3
Goodwill	98.4	50.0	–	148.4
Intangible assets arising on acquisition	33.9	26.5	3.9	64.3
Deferred tax arising on Intangible assets	(5.8)	(4.5)	(0.6)	(10.9)
Total	141.3	72.0	3.8	217.1
Satisfied by:				
Cash	117.9	72.0	3.8	193.7
Contingent consideration ¹	23.4	–	–	23.4
Total	141.3	72.0	3.8	217.1

1. Contingent consideration of £23.4 million is payable under the terms of the share purchase agreement for Adveq. This amount is contingent upon the receipt of future revenues over a number of years. The estimated range of amounts that will ultimately be payable is between £16 million and £114 million.

2. The discretionary wealth management business of C. Hoare & Co.

Notes to the accounts

29. Business combinations continued

Adveq

Goodwill arising on the acquisition of Adveq represents the value of the acquired business arising from:

- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain activities.

Goodwill arising on the acquisition of Adveq will not be deductible for tax purposes.

In the period between the acquisition date on 31 July 2017 and 31 December 2017, Adveq contributed £19.8 million to the Group's net income. The contribution to profit before tax and exceptional items was £4.6 million and exceptional costs of £2.7 million were incurred, including charges in respect of amortisation of the acquired intangible assets, other interest charges and restructuring costs. Additionally, acquisition costs of £1.1 million were recorded within 'Operating expenses' and classified as exceptional in the Consolidated income statement.

If the acquisition had been completed on 1 January 2017, the Group's pre-exceptional net income for the year would have been £2,091.4 million, and the profit before tax and exceptional items for the year on the same basis would have been £801.6 million.

Discretionary wealth management business of C. Hoare & Co.

The goodwill arising on the acquisition represents the value of the acquired business arising from:

- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain Wealth Management operations.

Goodwill arising on the acquisition will not be deductible for tax purposes.

In the period between the date of acquisition and 31 December 2017, the discretionary wealth management business of C. Hoare & Co. contributed £18.3 million to the Group's pre-exceptional net income within the Wealth Management segment. The contribution to profit before tax and exceptional items was £13.3 million and exceptional operating expenses of £3.3 million were incurred in respect of amortisation of acquired intangible assets.

If the acquisition had completed on 1 January 2017, the Group's pre-exceptional net income for the year would have been £2,071.5 million. Profit before tax and exceptional items for the year on the same basis would have been £802.4 million.

Estimates and judgements

The fair value of certain items of consideration, assets acquired and liabilities assumed requires some estimation. For contingent consideration payable on the acquisition of Adveq this estimation required assumptions regarding the level of management fees that will be earned over the relevant period and carried interest revenue that will be generated. The most judgemental estimation was in respect of carried interest revenue, which required assumptions on growth rates and crystallisation dates for each fund on which carried interest is earned and an appropriate discount rate.

Certain assets acquired, including intangible assets arising on acquisition, as well as liabilities assumed also required some estimation. The key assumptions included those in respect of carried interest revenue for Adveq as set out above, and management fees relating to all acquisitions. The assumptions affect the impact of carried interest upon the contingent consideration, revenue receivable, employee rights to carried interest and third party interests through co-investment arrangements.

The net impact of changes to these assumptions would be to change the carrying value of individual assets and liabilities with a corresponding change to goodwill. The reasonable range of potential outcomes of contingent consideration (undiscounted) is between £16 million and £114 million, compared with the Group's estimate of the amount payable of £23.4 million.

Presentation of the financial statements

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (EU), which comprise Standards and Interpretations approved by either the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee or their predecessors, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are available-for-sale or held at fair value through profit or loss, liabilities in respect of deferred cash awards and certain deposits both with banks and by customers and banks (including those that relate to bullion).

The statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's statement of financial position.

The Group's principal accounting policies have been consistently applied. Further information is provided below and highlighted in the notes to the accounts.

(b) Future accounting developments

The Group did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be adopted at the year end date. No Standards endorsed by the EU that had an impact on the Group became effective during the year.

The Standards and Interpretations relevant to the Group that had been issued but not yet adopted at the year end were:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments

No other Standards issued and not yet effective are expected to have an impact on the Group's financial statements.

(i) IFRS 9 Financial Instruments

IFRS 9 will replace the classification and measurement models for financial instruments currently contained in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was endorsed by the EU in November 2016 and is effective for accounting periods beginning on or after 1 January 2018.

On adoption of IFRS 9 the Group's financial assets will be reclassified as either at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The financial asset classification will be determined on the basis of the contractual cash flow characteristics of the instruments and the Group's business model for the collection of cash flows arising from its investments.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial

assets and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. An irrevocable election exists for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are recorded in other comprehensive income and are not reclassified to profit or loss upon derecognition.

For the Group, the adoption of IFRS 9 will result in certain investments in debt instruments being reclassified from available-for-sale in accordance with IAS 39 to fair value through profit or loss under IFRS 9. This change is driven by the cash flows from these investments (typically relating to investments in pooled investment vehicles) not relating solely to principal or interest.

The table below sets out the expected impact of reclassifying the Group's financial assets in accordance with IFRS 9 following its adoption on 1 January 2018.

IAS 39 classifications:	£m
Financial assets at amortised cost	1,492.2
Available-for-sale	994.9
Fair value through profit or loss	993.7
Total financial assets	3,480.8
IFRS 9 classifications:	£m
Financial assets at amortised cost	1,492.2
Fair value through other comprehensive income	925.4
Fair value through profit or loss	1,063.2
Total financial assets	3,480.8

Based on the Group's interests in financial instruments at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a reduction in the Group's net assets of approximately £1 million before tax. The reduction is driven by the impairment requirements on financial assets measured at amortised cost.

IFRS 9 introduces an expected loss model for the assessment of impairment. The current incurred loss model (under IAS 39) requires the Group to recognise impairment losses when there is objective evidence that an asset is impaired. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event.

If IFRS 9 had been applied during the year ended 31 December 2017, the impact on the Group's income statement would have been immaterial.

The Group does not expect to restate comparatives on adoption of IFRS 9 on 1 January 2018 but will provide additional transitional disclosures, including additional information in relation to expected credit losses.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 has been endorsed by the EU and will replace the current requirements contained in IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations when it becomes effective on 1 January 2018.

The standard introduces a five step model for recognising revenue, which consists of identifying the contract with the customer; identifying the relevant performance obligations; determining the amount of consideration to be received under the contract; allocating the consideration to each performance obligation; and earning the revenue as the performance obligations are satisfied.

Notes to the accounts

Presentation of the financial statements continued

Applying the standard requires judgement, particularly in relation to rolling contracts which renew automatically and include revenues which are variable under the terms of the contract as there is uncertainty as to the exact duration of the contract and or the revenues that will be received.

In readiness for the implementation of IFRS 15, the Group has performed a detailed review of its contracts with customers. Having completed this review, the Group does not expect the implementation of IFRS 15 to have a material impact on its results. The adoption of the standard will require changes to certain disclosures presented in the Group's financial statements.

(iii) IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and replaces IAS 17 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires that all operating leases in excess of one year, where the Group is the lessee, are included on the Group's statement of financial position. This will result in the Group being required to recognise a right-of-use (ROU) asset and a lease liability (representing the obligation to make lease payments). The ROU asset and lease liability are calculated based on the expected payments, requiring an assessment as to the likely effect of renewal options, and are discounted using the relevant incremental borrowing rate.

The ROU asset will be amortised on a straight-line basis with the interest expense on the lease liability being measured using the effective interest method (see note 2). The interest charge on the lease liability results in the earlier recognition of a proportion of the total lease expense. IFRS 16 contains optional exemptions for both short-term leases (less than 12 months) and for small-value leases.

The Group expects that IFRS 16 will not have a material impact on its net assets when it is adopted on 1 January 2019. There will be some impact to the Group's income statement as a result of the earlier recognition of the lease expense referred to above. The adoption of the standard will give rise to a material increase to both the Group's total assets and total liabilities, which will be driven by the lease commitments outstanding at the date of adoption. The Group's operating lease commitments at 31 December 2017 were £502.8 million (see note 24). The final impact will be dependent on certain factors that will not be known until closer to the implementation date, including the relevant discount rate.

(iv) IFRIC 23 Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. The Group has assessed the impact of IFRIC 23 and does not expect it to have a material impact when it becomes effective on 1 January 2019.

(c) Basis of consolidation

The consolidated financial information includes the total comprehensive gains or losses, the financial position and the cash flows of the Company and its subsidiaries, associates and joint ventures. Details of the Company's related undertakings are presented in note 38. This includes share ownership trusts established for certain share-based awards. In the case of associates and joint ventures, those entities are presented as single line items in the Income statement and Statement of financial position (see note 11). Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year on year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number and net assets of pooled investment vehicles managed by the Group where the shareholding in the year results in control, as defined by IFRS.

In such cases, the investment vehicle is consolidated and the third party interest is normally recorded as a financial liability. This consolidation has no net effect on the Income statement.

This treatment continues until the Group loses control, as defined by IFRS.

(d) Net gains and losses on foreign exchange

Many subsidiaries are denominated in currencies other than sterling. The results of these subsidiaries are translated at the average rate of exchange. At the year end, the assets and liabilities are translated at the closing rate of exchange. Gains or losses on translation are recorded in the Statement of comprehensive income and as a separate component of equity together with gains or losses on any hedges of overseas operations. Such gains or losses are transferred to the Income statement on disposal or liquidation of the relevant subsidiary.

Transactions undertaken in foreign currencies are translated into the functional currency of the subsidiary at the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year end date. Any exchange differences arising are included within 'Net gains on financial instruments and other income' in the Income statement unless they relate to non-monetary items where such gains or losses are recognised directly in other comprehensive income.

(e) Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies and in determining whether certain assets and liabilities should be recorded or an impairment recognised. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified under the title estimates and judgements. Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates may not equal the related actual results.

The estimates and judgements that could have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

Note 6	Tax expense
Note 10	Financial assets
Note 13	Goodwill and intangible assets
Note 17	Financial liabilities
Note 18	Provisions and contingent liabilities
Note 25	Retirement benefit obligations
Note 29	Business combinations

In applying IFRS 10 Consolidated Financial Statements, the Group uses judgement to determine whether its interests in funds (and other entities), including those held by the Group's Life Company, constitute controlling interests. The Group has interests in funds through its role as fund manager and through its proprietary investments in funds. The Group considers all relevant facts and circumstances in assessing whether it has power over specific funds or other entities. This includes consideration of the purpose and design of an investee, the extent of the Group's exposure to variability of returns as an investor and, where appropriate, as a fund manager, and the Group's ability to direct the relevant activities, including whether it has substantive or protective rights through voting rights and potential voting rights. These considerations are reassessed if there are indications that circumstances have changed since the original assessment.

Schroders plc – Statement of financial position

	Notes	2017 £m	2016 £m
Assets			
Trade and other receivables	32	1,357.6	1,176.4
Retirement benefit scheme surplus	25	162.9	118.2
Investments in subsidiaries	38	3,092.6	3,092.6
Total assets		4,613.1	4,387.2
Liabilities			
Trade and other payables	33	54.9	61.5
Deferred tax	34	19.9	12.7
Total liabilities		74.8	74.2
Net assets			
		4,538.3	4,313.0
Equity at 1 January		4,313.0	4,112.1
Profit for the year		458.2	441.6
Other changes in equity		(232.9)	(240.7)
Equity at 31 December		4,538.3	4,313.0

The financial statements were approved by the Board of Directors on 28 February 2018 and signed on its behalf by:

Richard Keers

Director

Bruno Schroder

Director

Schroders plc – Statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2017		282.7	124.2	(148.9)	4,055.0	4,313.0
Profit for the year		-	-	-	458.2	458.2
Items that will not be reclassified to the income statement:						
Actuarial gains on defined benefit pension scheme	25	-	-	-	41.5	41.5
Tax on items taken directly to other comprehensive income		-	-	-	(7.0)	(7.0)
Other comprehensive income		-	-	-	34.5	34.5
Total comprehensive income for the year		-	-	-	492.7	492.7
Shares cancelled	21	(0.2)	-	5.4	(5.2)	-
Own shares purchased	36	-	-	(53.7)	-	(53.7)
Share-based payments		-	-	-	53.3	53.3
Tax in respect of share schemes		-	-	-	0.6	0.6
Dividends	8	-	-	-	(267.6)	(267.6)
Transactions with shareholders		(0.2)	-	(48.3)	(218.9)	(267.4)
Transfers		-	-	47.2	(47.2)	-
At 31 December 2017		282.5	124.2	(150.0)	4,281.6	4,538.3
	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2016		282.5	119.4	(137.1)	3,847.3	4,112.1
Profit for the year		-	-	-	441.6	441.6
Items that will not be reclassified to the income statement:						
Actuarial losses on defined benefit pension scheme	25	-	-	-	(1.6)	(1.6)
Tax on items taken directly to other comprehensive income		-	-	-	(0.1)	(0.1)
Other comprehensive losses		-	-	-	(1.7)	(1.7)
Total comprehensive income for the year		-	-	-	439.9	439.9
Shares issued	21	0.2	4.8	-	-	5.0
Own shares purchased	36	-	-	(55.1)	-	(55.1)
Share-based payments		-	-	-	47.6	47.6
Tax in respect of share schemes		-	-	-	0.1	0.1
Dividends	8	-	-	-	(236.6)	(236.6)
Transactions with shareholders		0.2	4.8	(55.1)	(188.9)	(239.0)
Transfers		-	-	43.3	(43.3)	-
At 31 December 2016		282.7	124.2	(148.9)	4,055.0	4,313.0

The distributable profits of Schroders plc are £2.7 billion (2016: £2.5 billion) and comprise distributable retained profits of £2.8 billion (2016: £2.6 billion), included within the 'Profit and loss reserve', less amounts held within the own shares reserve.

The Group's ability to pay dividends is however restricted by the need to hold regulatory capital and to maintain sufficient other operating capital to support its ongoing business activities. In addition, the Group invests in its own funds as seed capital for the purposes of supporting new investment strategies. An analysis of the Group's capital position is provided in note 19.

Schroders plc – Cash flow statement

for the year ended 31 December 2017

	2017 £m	2016 £m
Profit before tax	453.9	433.0
Adjustments for:		
Increase in trade and other receivables	(182.0)	(125.6)
(Decrease)/increase in trade and other payables	(6.6)	3.2
Net credit taken in respect of the defined benefit pension scheme	(3.2)	(4.4)
Share-based payments	53.3	47.6
Amounts received in respect of Group tax relief	6.2	9.1
Interest payable	-	0.2
Interest receivable	(0.3)	0.1
Net cash from operating activities	321.3	363.2
Cash flows from investing activities		
Purchase of subsidiary	-	(80.6)
Net cash used in investing activities	-	(80.6)
Cash flows from financing activities		
Loan received from a Group company	-	9.0
Acquisition of own shares	(53.7)	(55.1)
Dividends paid	(267.6)	(236.6)
Net cash used in financing activities	(321.3)	(282.7)
Net decrease in cash and cash equivalents	-	(0.1)
Opening cash and cash equivalents	-	0.1
Net decrease in cash and cash equivalents	-	(0.1)
Closing cash and cash equivalents	-	-

30. Significant accounting policies

The separate financial statements of Schroders plc (Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 (Act) applicable to companies reporting under IFRS, and accounting policies that have been applied consistently. As permitted by the Act, the separate financial statements have been prepared in accordance with IFRS (as adopted by the European Union), which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as at 31 December 2017. The Company has taken advantage of the exemption in section 408 of the Act not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures, where applicable. In addition note 38 sets out the accounting policy in respect of investments in subsidiary undertakings.

Schroders plc – Notes to the accounts

31. Expenses and other disclosures

The auditors' remuneration for audit services to the Company was £0.6 million (2016: £0.5 million). There were no fees relating to further assurance services in the year (2016: nil).

Key management personnel compensation

The remuneration policy is described in more detail in the Remuneration report. The Company has no employees. The key management personnel of the Company are defined as the Board of Directors. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2017 £m	2016 £m
Short-term employee benefits	Salary and upfront bonus	7.0	13.0
Share-based payments	Deferred share awards	3.3	4.8
Other long-term benefits	Deferred cash awards	3.8	6.9
Termination benefits	Termination benefits	–	3.0
		14.1	27.7

32. Trade and other receivables

	2017 £m	2016 £m
Amounts due from subsidiaries	1,357.2	1,176.0
Other receivables	0.4	0.4
	1,357.6	1,176.4

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost. All trade and other receivables are due within one year or repayable on demand.

Amounts due from subsidiaries include £1,297.3 million (2016: £1,126.3 million) of interest-bearing loans and deposits.

33. Trade and other payables

	2017			2016		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables held at amortised cost:						
Social security	3.8	3.3	7.1	3.3	3.9	7.2
Accruals	8.8	11.4	20.2	9.7	19.5	29.2
Other payables	–	1.0	1.0	–	1.8	1.8
Amounts owed to subsidiaries	–	26.6	26.6	–	23.3	23.3
	12.6	42.3	54.9	13.0	48.5	61.5

The Company's trade and other payables mature in the following time periods:

	2017 £m	2016 £m
Less than one year	42.3	48.5
1 – 2 years	9.4	8.7
2 – 3 years	2.4	3.1
3 – 4 years	0.8	1.2
	12.6	13.0
	54.9	61.5

Amounts owed to subsidiaries include an interest-bearing loan of £21.5 million (2016: £21.5 million) that is repayable on demand.

34. Deferred tax

	2017			2016		
	Deferred employee awards £m	Pension surplus £m	Total £m	Deferred employee awards £m	Pension surplus £m	Total £m
At 1 January	(7.4)	20.1	12.7	(6.8)	20.8	14.0
Income statement charge/(credit)	0.1	0.7	0.8	(1.3)	0.8	(0.5)
Income statement charge/(credit) due to changes in tax rates	0.1	(0.1)	-	0.4	(1.6)	(1.2)
Charge/(credit) to statement of other comprehensive income	-	7.0	7.0	-	(0.3)	(0.3)
Charge to statement of other comprehensive income due to changes in tax rates	-	-	-	-	0.4	0.4
(Credit)/charge taken to equity	(0.6)	-	(0.6)	0.3	-	0.3
At 31 December	(7.8)	27.7	19.9	(7.4)	20.1	12.7

35. Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have adequate capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Key risks and mitigations' section within the Strategic report and the 'Risk and internal controls' section within the Audit and Risk Committee report as well as in note 19. The Company's specific risk exposures are explained below.

Credit risk

The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Company's counterparties are predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost. The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover its needs in the normal course of business. The Company can recall intercompany loans to subsidiaries or utilise the Group loan facility to maintain sufficient liquidity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

At 31 December 2017, if interest rates had been 50 bps higher (2016: 50 bps higher) or 50 bps lower (2016: 25 bps lower) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £5 million (2016: increased by £4 million) or decreased by £5 million (2016: decreased by £2 million) respectively. These changes are mainly as a result of net interest income on the Company's interest-bearing intercompany receivables and payables and cash. Other components of equity are not directly affected by interest rate movements.

The model used to calculate the effect on post-tax profits does not take into account the indirect effect of interest rates on the fair value of other assets and liabilities.

Foreign exchange and pricing risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is not directly exposed to foreign exchange or pricing risk. The Company's investments in its directly-held subsidiaries are in sterling and are held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group which could result in the impairment of these subsidiaries. There are currently sufficient resources in subsidiaries to absorb any normal market events.

36. Own shares

Movements in own shares during the year were as follows:

	2017 £m	2016 £m
At 1 January	(148.9)	(137.1)
Own shares purchased	(53.7)	(55.1)
Own shares cancelled	5.4	-
Awards vested	47.2	43.3
At 31 December	(150.0)	(148.9)

During the year 1.7 million own shares (2016: 2.1 million own shares) were purchased and held for hedging share-based awards. 2.2 million shares (2016: 2.9 million shares) awarded to employees vested in the period and were transferred out of own shares.

Schroders plc – Notes to the accounts

36. Own shares continued

The total number of shares in the Company held within the Company's employee benefit trusts comprise:

	2017			2016		
	Number of vested shares Millions	Number of unvested shares Millions	Total Millions	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.0	6.0	8.0	2.0	6.5	8.5
Non-voting ordinary shares	0.2	0.1	0.3	0.2	0.1	0.3
	2.2	6.1	8.3	2.2	6.6	8.8

	2017			2016		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	32.4	148.4	180.8	31.6	146.4	178.0
Fair value	67.2	216.7	283.9	61.2	198.5	259.7
Non-voting ordinary shares:						
Cost	2.6	1.6	4.2	2.4	2.5	4.9
Fair value	5.6	2.4	8.0	4.7	3.0	7.7
Total:						
Cost	35.0	150.0	185.0	34.0	148.9	182.9
Fair value	72.8	219.1	291.9	65.9	201.5	267.4

37. Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under IFRS. As a result the related parties of the Company comprise principally subsidiaries, joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties.

The Company has determined that key management personnel comprises only the Board of Directors.

Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation (which is set out in note 31), are disclosed below:

	2017					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	479.3	11.3	2.1	0.3	1,357.2	(26.6)
Key management personnel	0.2	-	-	-	-	(54.1)
	2016					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	467.2	9.3	2.9	0.3	1,176.0	(23.3)
Key management personnel	0.2	-	-	-	-	(12.8)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No expense for bad or doubtful debts has been recognised during the year (2016: nil) in respect of the amounts owed by related parties.

38. Subsidiaries and other related undertakings

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings, comprising subsidiaries, joint ventures, associates and other qualifying undertakings. A full list of these undertakings, the country of incorporation and the ownership of each share class, as at 31 December 2017, is disclosed below. The registered office for each entity is listed on pages 154 and 155. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries, associates and joint ventures of the Group.

Additionally, related undertakings include entities where the Company has a significant holding of a share class or unit class of a pooled vehicle. These holdings can arise through the Group's investment management activities on behalf of clients or as part of the stated aim of generating a return on investment capital. Additionally, the seeding of structured entities in order to develop new investment strategies can give rise to these holdings. A listing of related undertakings arising from the Company's interest in structured entities along with registered offices is included on pages 156 to 159.

All subsidiaries listed below are included in the consolidated financial statements of the Group.

(a) Related undertakings arising from the Company's corporate structure

Principal subsidiaries

The principal subsidiaries listed below are those which, in the opinion of the Directors, principally affect the consolidated profits or net assets of the Company, or are regulated. The principal subsidiary entities are wholly-owned subsidiary undertakings of the Company, unless otherwise stated. All undertakings operate in the countries where they are registered or incorporated and are stated at cost less, where appropriate, provisions for impairment.

UK

Aspect8 Limited – 65% owned ²
 Best Practice IFA Group Limited – 65% owned ²
 Chilcomb Wealth Ltd ²
 Evolution Wealth Network Limited – 65% owned ²
 Fusion Wealth Limited – 65% owned ²
 Leadenhall Securities Corporation Limited ³
 Schroder & Co. Limited ²
 Schroder Administration Limited ^{4 a}
 Schroder Corporate Services Limited ³
 Schroder Financial Services Limited ³
 Schroder Investment Company Limited ³
 Schroder Investment Management Limited ¹
 Schroder Investment Management North America Limited ¹
 Schroder Pension Management Limited ¹
 Schroder Real Estate Investment Management Limited ¹
 Schroder Unit Trusts Limited ¹
 Schroder Wealth Management (US) Limited ²

Argentina

Schroder Investment Management S.A. – 95% owned ¹

Australia

Schroder Investment Management Australia Limited ¹¹

Bermuda

Schroders (Bermuda) Limited ⁴

Brazil

Schroder Investment Management Brasil Ltda. ¹

France

Schroder AIDA SAS – 70% owned ¹

Germany

Schroder Investment Management GmbH ¹
 Schroder Real Estate Investment Management GmbH ¹
 Schroder Real Estate Kapitalverwaltungsgesellschaft mbH ¹

Guernsey

Burnaby Insurance (Guernsey) Limited ⁵
 Schroders (C.I.) Limited ²
 Schroder Investment Company (Guernsey) Limited ³
 Schroder Venture Managers (Guernsey) Limited ^{3 n}

Hong Kong

Schroder & Co. (Hong Kong) Limited ²
 Schroder Investment Management (Hong Kong) Limited ^{1 m}

Indonesia

PT Schroder Investment Management Indonesia – 99% owned ¹

Ireland

Schroder Investment Management (Ireland) Limited ¹

Italy

Schroders Italy SIM S.p.A. ^{1 2}

Japan

Schroder Investment Management (Japan) Limited ¹

Jersey

Cazenove Capital Holdings Limited ^{2 a}
 Schroder Real Estate Managers (Jersey) Limited ¹

Luxembourg

Schroder Investment Management (Luxembourg) S.A. ¹
 Schroder Real Estate Investment Management (Luxembourg) S.à.r.l ¹

Mexico

Consultora Schroders, S.A. de C.V. – 99% owned ¹¹

Singapore

Schroder & Co (Asia) Limited ²
 Schroder Investment Management (Singapore) Ltd. ¹

South Korea

Schroders Korea Limited ¹

Switzerland

Schroder Adveq Management AG ^{6 p}
 Schroder & Co Bank AG ²
 Schroder Investment Management (Switzerland) AG ¹
 Secquaero Advisors AG – 50.1% owned ¹

Taiwan

Schroder Investment Management (Taiwan) Limited ¹

United States

Schroder Fund Advisors LLC ¹
 Schroder Investment Management North America Inc. ¹
 Schroder US Holdings Inc ³

Other corporate related undertakings

The remaining related undertakings arising from the Company's corporate structure are listed on the following pages. These include subsidiaries (other than those listed above), joint ventures, associates and other qualifying undertakings. The financial year end of joint ventures is coterminous with the Company. In all cases, the management of joint ventures is based upon joint voting rights under a Shareholders Agreement.

Schroders plc – Notes to the accounts

38. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Other corporate related undertakings

Fully owned subsidiaries

UK

Adveq Founder Partner (GP) Limited⁶
 Adveq Founder Partner Limited⁶
 Adveq GP LLP⁶
 Cazenove Capital Management Limited²
 Cazenove New Europe (CFM1) Limited^{2b}
 Cazenove New Europe (PPI) Limited^{2b}
 Cazenove New Europe Staff Interest Limited^{2b}
 CCM Nominees Limited^{2b}
 Croydon Gateway Nominee 1 Limited¹
 Croydon Gateway Nominee 2 Limited¹
 J. Henry Schroder Wagg & Co. Limited^{3b}
 Residential Land Development (GP) LLP¹
 Schroder Adveq Management (UK) Limited⁶
 Schroder & Co Nominees Limited^{2b}
 Schroder Financial Holdings Limited⁴
 Schroder Infra Debt GP LLP¹
 Schroder International Holdings Limited⁴
 Schroder Nominees Limited^{1b}
 Schroder Pension Trustee Limited³
 Schroder Private Assets Holdings Limited⁶
 Schroder Wealth Holdings Limited⁴

Australia

Schroder Australia Holdings Pty Limited^{4hgk}

Bermuda

Schroder General Partner (Bermuda) Limited³
 Schroder Holdings (Bermuda) Limited⁴
 Schroder International Holdings (Bermuda) Limited⁴
 Schroder Management Company (Bermuda) Limited³
 Schroder Venture Managers Limited³
 SITCO Nominees Limited³

Canada

Schroder Canada Investments Inc.³

Cayman

Schroder Adveq Cpi Global Management III L.P.⁵
 AEROW SMA Management I L.P.⁵
 PEM Partners Ltd^{6p}

Chile

Schroders Chile SpA¹

China

Adveq Investment Management (Beijing) Co., Ltd⁶
 Schroder Investment Management (Shanghai) Co., Ltd.¹

Curaçao

Schroder Adveq Investors B.V – 1 registered share^p
 Cpi Schroder Adveq Investments Management B.V.^p
 Schroder Adveq Management N.V.^{6p}

France

Schroder Real Estate Investment Management (France)¹

Germany

Blitz 06-953 GmbH¹
 Real Neunzehnte Verwaltungsgesellschaft mbH¹
 Schroder Adveq Management Deutschland GmbH⁶
 Schroder Eurologistik Fonds Verwaltungs GmbH¹
 Schroder Holdings (Deutschland) GmbH¹
 Schroder Italien Fonds Verwaltungs GmbH¹
 SIMA 5 Verwaltungsgesellschaft mbH^{1p}
 SPriM Holdings GmbH¹

Guernsey

Schroder Investments (Guernsey) Limited³
 Schroder Nominees (Guernsey) Limited⁴
 Schroder Ventures European Fund Managers Limited¹
 Secquaero Re (Guernsey) ICC Ltd¹

Hong Kong

Schroders Adveq Management (Hong Kong) Limited⁶
 Schroders Asia Nominees Limited¹
 S & C Nominees Limited²

Italy

Vicarello Societa Agricola a Responsabilita Limitata¹

Jersey

AAF Management II L.P.^{6s}
 AAF Management III L.P.^{6s}
 SA-EL Asia Partners I L.P.^{6s}
 Schroder Adveq EEM Management I L.P.⁵
 Schroder Adveq Europe Direct Partners II L.P.⁵
 Schroder Adveq Europe Partners VII L.P.⁵
 Schroder Adveq Global Partners II L.P.⁵
 Schroder Adveq Mature Secondaries (Orthros) Management L.P.⁵
 Schroder Adveq Mature Secondaries (Orthros) Management II L.P.⁵
 Schroder Adveq Mature Secondaries (Orthros) Management III L.P.⁵
 Schroder Adveq Secondaries Management III L.P.⁵
 Schroder Adveq Technology Partners IX L.P.⁵
 BKMS Management L.P.⁵
 Columbus UK (CIP) Limited¹
 Cresta Management L.P.⁵
 Croydon Gateway GP Limited¹
 Croydon Gateway Investments Limited¹
 GPEP Management I L.P.⁵
 IST3 Manesse PE Management LP⁵
 Lerisson Nominees Limited⁴
 Salève 2017 Management L.P.⁵
 Schroder Adveq Management Jersey Ltd⁶
 TMC Management III L.P.⁵
 TMC Management I L.P.⁵

Luxembourg

Schroder Adveq Management Luxembourg S.à.r.l.^{6p}

Netherlands

Schroder International Finance B.V.⁴

Singapore

Schroder Singapore Holdings Private Limited⁴
 SIMBL Nominees Private Limited¹

Switzerland

Schroder Adveq Holding AG^{6p}
 Schroder Trust AG²

United States

Schroder Adveq Management US Inc⁶
 Schroders Incorporated¹
 Schroder Venture Managers Inc.¹

38. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Other corporate related undertakings

Subsidiaries where the ownership is less than 100%

UK

Alderbrook Financial Planning Limited – 65%²
 Benchmark Capital Limited – 65% owned^{2h o}
 Brian Potter Consultants Limited – 65%²
 Bright Square Pensions Limited – 65% owned²
 Creative Technologies Limited – 65%²
 Evolution Investment Management Limited – 65%²
 Fusion Funds Limited – 65%²
 Invicta Independent Financial Advisers Limited – 65%²
 PP Nominees Limited – 65%²
 PP Trustees Limited – 65%²

Argentina

Schroder S.A. Sociedad Gerente de Fondos Comunes de Inversion – 95%¹

Cayman

Schroder Adveq Asia Management I L.P. – 75%^{6 s}
 Schroder Adveq Asia Management II L.P. – 66%^{6 s}
 Schroder Adveq cPI Global Management L.P. – 63%^{6 s}
 Schroder Adveq cPI Global Management II L.P. – 88%^{6 s}
 Schroder Adveq Europe Management III L.P. – 88%^{6 s}
 Schroder Adveq Europe Management IV A L.P. – 59%^{6 s}
 Schroder Adveq Europe Management IV B L.P. – 70%^{6 s}
 Schroder Adveq Opportunity Management I L.P. – 76%^{6 s}
 Schroder Adveq Opportunity Management II L.P. – 87%^{6 s}
 Schroder Adveq Technology Management V L.P. – 89%^{6 s}
 Schroder Adveq Technology Management VI L.P. – 65%^{6 s}

Germany

CM Komplementär 06-379 GmbH & Co KG – 95%¹

Associates and joint ventures

UK

Kellands (Bristol) Limited – 24%²
 RWC Partners Limited – 43%^{3h}
 Nippon Life Schroders Asset Management Europe Limited – 33%^{1h}
 Robertson Baxter Limited – 24%²

Cayman

Schroder Adveq Europe Management II L.P. – 20%^{6 s}
 Schroder Adveq Technology Management III L.P. – 20%^{6 s}
 Schroder Adveq Technology Management IV L.P. – 30%^{6 s}

China

Bank of Communications Schroder Fund Management Co. Ltd. – 30%¹

Guernsey

Schroder Ventures Investments Limited – 50%^{3 c d}

India

Axis Asset Management Company Limited – 25%¹

¹ Asset Management.

² Wealth Management.

³ Group Company.

⁴ Holding Company.

⁵ Captive insurer for the Group.

⁶ Private assets.

^a Held directly by the Company.

^b Dormant, exempt from preparing individual accounts.

^c The Company also holds redeemable preference shares.

^d The Company also holds deferred shares.

^e The Company also holds preference C shares.

^f The Company also holds preference B shares.

Guernsey

Schroder Investment Management (Guernsey) Limited – 99%¹
 SQ ReVita I Limited – 50.1%¹

Jersey

AAF Management I L.P. – 53%^{6 s}
 Schroder Adveq Asia Management III L.P. – 53%^{6 s}
 Schroder Adveq Asia Management IV L.P. – 70%^{6 s}
 Schroder Adveq Europe Co-Investments Management L.P. – 73%^{6 s}
 Schroder Adveq Europe Management V L.P. – 73%^{6 s}
 Schroder Adveq Europe Management VI L.P. – 74%^{6 s}
 Schroder Adveq Global Management L.P. – 71%^{6 s}
 Schroder Adveq Opportunity Management III L.P. – 52%^{6 s}
 Schroder Adveq Opportunity Management IV L.P. – 73%^{6 s}
 Schroder Adveq Real Assets Harvested Resources Management LP – 75%^{6 s}
 Schroder Adveq Secondaries Management II L.P. – 53%^{6 s}
 Schroder Adveq Technology Management VII L.P. – 47%^{6 s}
 Schroder Adveq Technology Management VIII L.P. – 78%^{6 s}
 GPEP Management II L.P. – 70%^{6 s}
 GPEP Management III L.P. – 70%^{6 s}
 TMC Management I L.P. – 54%^{6 s}
 TMC Management II L.P. – 49%^{6 s}
 Wilmersdorf Secondary Management L.P. – 71%^{6 s}

Luxembourg

Schroder Property Services B.V. S.à.r.l. – 70%¹

Jersey

Bracknell General Partner Limited – 50%^{1g}

Netherlands

NEOS Finance Group B.V. – 25%¹

Singapore

Nippon Life Global Investors Singapore Limited – 33%^{1j}

United States

Safe Harbor Re Holdings LLC – 8%^{3t}

^g The Company holds ordinary A shares.

^h The Company holds ordinary B shares.

ⁱ The Company holds series A shares.

^j The Company holds B shares.

^k The Company holds preference shares.

^l The Company also holds convertible preference shares.

^m The Company also holds 8.5% redeemable non-cumulative preference shares.

ⁿ The Company also holds non-cumulative redeemable preference shares.

^o The Company holds a 65% economic interest and 49% of the voting rights.

^p The Company holds registered shares.

^q The Company is an LLC with no share capital.

^r 1 share, Stammanteil.

^s Partnership interest.

^t The Company also holds convertible loan notes, taking the Group's effective holding to 28%.

Schroders plc – Notes to the accounts

38. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

The registered offices for each of the related undertakings on pages 151 to 153 are reflected by country below:

UK

The registered office for the UK corporate entities is 31 Gresham Street, London, EC2V 7QA, United Kingdom, except for the following entities:

RWC Partners Limited – Verde 4th Floor, 10 Bressenden Place, London, SW1E 5DH, United Kingdom

Invicta Independent Financial Advisers Limited – The Granary Hermitage Court, Hermitage Lane, Maidstone, Kent, ME16 9NT, United Kingdom

The registered office for the following entities is Sussex House, North Street, Horsham, West Sussex, RH12 1RQ, United Kingdom:

Alderbrook Financial Planning Limited
Aspect8 Limited
Benchmark Capital Limited
Best Practice IFA Group Limited
Brian Potter Consultants Limited
Bright Square Pensions Limited
Creative Technologies Limited
Evolution Investment Management Limited
Evolution Wealth Network Limited
Fusion Funds Limited
Fusion Wealth Limited
PP Nominees Limited
PP Trustees Limited

The registered office for the following Scottish incorporated entities is 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, United Kingdom:

Adveq Founder Partner (GP) Limited
Adveq Founder Partner Limited
Adveq GP LLP
Schroder Adveq Management (UK) Limited

Kellands (Bristol) Limited – Quays Office Park, Conference Avenue, Portishead, Bristol, BS20 7LZ, United Kingdom

Robertson Baxter Limited – The Mill 150 Penistone Road, Shelley, Huddersfield, West Yorkshire, HD8 8JQ, United Kingdom

Argentina

Ing.Enrique Butty 220, Piso 12, Buenos Aires, C1001AFB, Argentina

Australia

Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia

Bermuda

Wellesley House, 2nd Floor, 90 Pitts Bay Road, Pembroke HM 08, Bermuda

Brazil

100 Joaquim Floriano, Itaim, 14th Floor Suites 141 and 142, Sao Paulo SP Brazil, 04534-000, Brazil

Canada

c/o Cidel Financial Group, 60 Bloor Street West, 9th Floor, Toronto, ON M4W 3B8, Canada

Cayman

Maples Corporate Services Limited, PO Box 309 Ugland House, Grand Cayman KY1-1104

Chile

Avenida Cerro El Plomo 5420 Oficina 1104, Les Condes, Santiago, Chile

China

Bank of Communications Schroder Fund Management Co. Ltd. – 2nd Floor, Bank of Communications Tower, 188 Middle Yincheng Road, Pudong New Area, 200120, Shanghai, China

Schroder Investment Management (Shanghai) Co., Ltd. – Unit 1101, 11/F, Shanghai IFC Phase 1 (HSBC Building), No. 8 Century Avenue, Pudong, Shanghai, 200120, China

Curaçao

Johan Van Walbeekplein 11, Curaçao

France

8-10 rue Lamennais, 75008, Paris, France

Germany

The registered office for the German corporate entities is Taunustor 1 (Taunusturm), 60310, Frankfurt am Main, Germany, except for the below entity:

Schroder Italien Fonds Verwaltungs GmbH – Taunustor 2, 60311, Frankfurt am Main, Germany

Guernsey

The registered office for the Guernsey corporate entities is PO Box 334 Regency Court, Gategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands, except for the following entities:

Burnaby Insurance (Guernsey) Limited – PO Box 230, Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey, Channel Islands

Schroder Venture Managers (Guernsey) Limited – PO Box 255, Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey, Channel Islands

Schroder Ventures European Fund Managers Limited – PO Box 255, Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey, Channel Islands

Schroder Ventures Investments Limited – PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands

Secquaero Re (Guernsey) ICC Ltd – Maison Trinity, Trinity Square, St Peter Port, Guernsey, Guernsey, GY1 4AT, Channel Islands

38. Subsidiaries and other related undertakings continued

(a) Related undertakings arising from the Company's corporate structure continued

Hong Kong

The registered office for the Hong Kong corporate entities is Level 33, Two Pacific Place, 88 Queensway, Hong Kong, except for the below entities:

Schroder & Co. (Hong Kong) Limited – Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Schroder Adveq Management (Hong Kong) Limited – Suite 616, 100 Queen's Road Central, Central, Hong Kong

India

1st Floor, Axis House, C-2 Wadia International Centre, Pandurang Budhkar Marg, Worli-Mumbai, 400025, India

Indonesia

30th Floor, Indonesia Stock Exchange Building, Tower 1, Jl Jendral Sudirman Kav 52-53, Jakarta, 12190, Indonesia

Ireland

George's Court, 54-62 Townsend Street, Dublin 2, Ireland

Italy

The registered office for the Italian corporate entities is Via della Spiga, 30 20121, Milan, Italy, except for the below entity:

Vicarello Societa Agricola a Responsabilita Limitata – Loc. Vicarello, 00062, Bracciano, Italy

Japan

8-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-0005, Japan

Jersey

The registered office for the Jersey corporate entities is PO Box 490, 40 Esplanade, St Helier, Jersey, JE4 9WB, Channel Islands except for the below entities:

Cazenove Capital Holdings Limited – 44 Esplanade, St Helier, Jersey, JE4 9WG

The registered office for the limited partnerships is: 26 New Street, St Helier, Jersey, JE2 3RA

Luxembourg

The registered office for the Jersey corporate entities is 5 rue Höhenhof, L-1736 Senningerberg, Luxembourg except for the below entities:

Schroder Adveq Management Luxembourg S.à.r.l. – 2 Place de Paris, L-2314, Luxembourg

Mexico

Montes Urales 760 Desp. 101, Col. Lomas de Chapultepec, Mexico, DF, 11000, Mexico

Netherlands

Schroder International Finance B.V. – 31 Gresham Street, London, EC2V 7QA, United Kingdom

NEOS Finance Group B.V. – The Hofpoort Building, Hofplein 20, 21st Floor, 3032 AC Rotterdam, Netherlands

Singapore

138 Market Street, #22-03, CapitaGreen, Singapore, 048946, Singapore

South Korea

26th fl., 136, Sejong-daero, Jung-gu, Seoul 100-768, South Korea

Switzerland

The registered office for the Swiss corporate entities is Central 2, Postfach, 8021, Zurich, Switzerland, except for the below entities:

Schroder Trust AG – 8 rue d'Italie, P.O. Box 3655, 41211, Geneva, Switzerland

Schroder Adveq Management AG and Schroder Adveq Holding AG – Affolternstrasse 56, 8050 Zurich, Switzerland

Taiwan

9/F, 108 Sec.5., Hsin-Yi Road, Hsin-Yi District, Taipei 11047, Taiwan

United States

The registered office for the United States corporate entities is 7 Bryant Park, New York, New York, 10018-3706, USA, except for the following entities:

Safe Harbor Re Holdings LLC – 160 Greentree Drive, Suite 101, Dover, Delaware, 19904, USA

Schroder Adveq Management US Inc – Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA

Schroders plc – Notes to the accounts

38. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities

The Company's related undertakings also include funds in which it holds investments. These include fully and partially owned funds which are classified as subsidiaries. Due to the number of share classes or unit classes which can exist in these vehicles, a significant holding in a single share class or unit class is possible, without that undertaking being classified as a subsidiary or associate.

Fully owned subsidiaries

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Flexible Retirement Benefit Fund	X Accumulation	100%	100%
Schroder Securitised Credit Fund Limited	-	100%	100%
Luxembourg			
Schroder Property FCP-FIS – Schroder Property German Residential Fund	B	100%	100%

Subsidiaries where the ownership is less than 100%

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Advanced Beta Global Equity Quality Fund	X Accumulation	74%	74%
Schroder Advanced Beta Global Equity Small & Mid Cap Fund	X Accumulation	94%	54%
Schroder Diversified Growth Fund	I Accumulation	97%	97%
Schroder Dynamic Planner Portfolio 3	Z Accumulation	99%	99%
Schroder Dynamic Planner Portfolio 4	Z Accumulation	99%	99%
Schroder Dynamic Planner Portfolio 5	Z Accumulation	99%	99%
Schroder Dynamic Planner Portfolio 6	Z Accumulation	99%	99%
Schroder Dynamic Planner Portfolio 7	Z Accumulation	99%	99%
Schroder Dynamic Multi-Asset Fund	Z Accumulation	66%	57%
Schroder Fusion Portfolio 3	F Accumulation	78%	78%
Schroder Fusion Portfolio 4	F Accumulation	38%	38%
Schroder Fusion Portfolio 5	F Accumulation	43%	43%
Schroder Fusion Portfolio 6	F Accumulation	71%	71%
Schroder Fusion Portfolio 7	F Accumulation	70%	70%
Schroder Global Emerging Markets Fund	A Accumulation	67%	49%
Schroder Global Multi-Asset Income Fund	Z Accumulation	96%	91%
Schroder Long Dated Corporate Bond Fund	I Accumulation	80%	53%
Schroder Multi-Asset Total Return Fund	X Accumulation	99%	99%
Schroder Multi Factor Equity Fund	X Accumulation	96%	42%
Schroder QEP Global Active Value Fund	I Accumulation	79%	52%
Schroder QEP Global Emerging Markets Fund	I Accumulation	91%	11%
Schroder QEP Global Emerging Markets Fund	X Accumulation	44%	40%
Schroder Specialist Value UK Equity Fund	I Accumulation	82%	40%
Schroder Strategic Beta Fund	X Accumulation	100%	99%
Australia			
Schroder Real Return Fund	W Distribution	47%	47%
Bermuda			
Schroder Securitised Credit Master Fund LP	-	80%	80%
Brazil			
Schroder Best Ideas Fundo De Investimento Em Acoes	-	97%	97%
Schroder Fundo De Investimento Multimercado Low Vol	-	99%	99%
Japan			
Schroder YEN Target (Semi-Annual)	-	80%	80%
Schroder YEN Target (Annual)	-	58%	58%
Schroder YEN Target Mother Fund	-	67%	67%

38. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
Luxembourg			
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation	99%	85%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation GBP Hedge	99%	13%
Schroder Alternative Solutions Asian Long Term Value Fund	I Accumulation	87%	87%
Schroder GAIA BSP Credit	I Accumulation	100%	89%
Schroder GAIA Contour Tech Equity	I Accumulation	100%	46%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	57%
Schroder International Selection Fund Emerging Market Equity Alpha	I Accumulation	99%	99%
Schroder International Selection Fund European Large Cap Fund	I Accumulation	67%	44%
Schroder International Selection Fund Global Credit Value	I Accumulation	100%	95%
Schroder International Selection Fund Global Target Return	I Accumulation	100%	99%
Schroder International Selection Fund Multi-Asset PIR Italia	C Accumulation	100%	99%
Schroder International Selection Fund Multi-Asset Total Return	I Accumulation	96%	91%
Schroder International Selection Fund QEP Global Absolute	I Accumulation	100%	6%
Schroder International Selection Fund QEP Global Absolute	I Accumulation GBP Hedge	100%	66%
Schroder International Selection Fund Securitised Credit	I Accumulation	100%	99%
United States			
Schroder Emerging Market Small Cap Fund	Investor Distribution	84%	1%
Schroder Emerging Market Small Cap Fund	R6 Distribution	100%	98%
Schroder Short Duration Bond Fund	Investor Distribution	99%	1%
Schroder Short Duration Bond Fund	R6 Distribution	91%	90%

Associates – held at fair value

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Advanced Beta Global Equity Value Fund	I Accumulation	27%	27%
Schroder Global Equity Fund	I Accumulation	44%	23%
Schroder US Equity Income Maximiser	L Accumulation	99%	23%
Brazil			
Schroder Liquid Alternatives Investimento No Exterior Fundo De Investimento Multimercado	-	22%	22%
United States			
Hartford Schroder Emerging Markets Multi-Sector Bond Fund	A Distribution	38%	2%
Hartford Schroder Emerging Markets Multi-Sector Bond Fund	SDR Distribution	39%	22%

Schroders plc – Notes to the accounts

38. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

Significant holdings in structured entities not classified as subsidiaries or associates

Fund Name	Share/unit class	Holding in undertaking share/unit class	Total holding in undertaking via share/unit class
UK			
Schroder Absolute Return Bond Fund	X Income	100%	14%
Schroder Advanced Beta Global Corporate Bond Fund	X Accumulation	27%	12%
Schroder Advanced Beta Global Sovereign Bond Fund	X Accumulation	44%	17%
Schroder All Maturities Corporate Bond Fund	I Accumulation	53%	17%
Schroder European Fund	I Income	33%	3%
Schroder Institutional Pacific Fund	I Accumulation	39%	12%
Schroder QEP Global Core Fund	I Accumulation	35%	9%
Schroder QEP Global Core Fund	X Accumulation	31%	7%
Schroder Sterling Broad Market Bond Fund	I Accumulation	64%	8%
Cayman Islands			
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-sale Restriction for the Japanese Investors)	B	100%	0%
Musashi Smart Premia Fund (Exclusively for Qualified Institutional Investors with Re-sale Restriction for the Japanese Investors)	C	100%	1%
Luxembourg			
Schroder Alternative Solutions Agriculture Fund	I Accumulation	100%	1%
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedge	94%	0%
Schroder GAIA Paulson Merger Arbitrage	C Distribution GBP Hedge	69%	5%
Schroder GAIA Paulson Merger Arbitrage	E Distribution GBP Hedge	97%	9%
Schroder GAIA Two Sigma Diversified	C Accumulation	65%	11%
Schroder International Selection Fund Emerging Markets Debt Absolute Return	I Accumulation	27%	9%
Schroder International Selection Fund Emerging Markets Debt Absolute Return	I Accumulation EUR Hedge	67%	0%
Schroder International Selection Fund Euro High Yield	I Accumulation	89%	0%
Schroder International Selection Fund European Alpha Focus	I Accumulation	100%	15%
Schroder International Selection Fund Global Convertible Bond	I Accumulation	100%	0%
Schroder International Selection Fund Global Convertible Bond	I Accumulation EUR Hedge	85%	0%
Schroder International Selection Fund Global Corporate Bond	I Accumulation	22%	5%
Schroder International Selection Fund Global Credit Income	I Accumulation	100%	10%
Schroder International Selection Fund Global Diversified Growth	I Accumulation GBP Hedge	44%	1%
Schroder International Selection Fund Global Energy	I Accumulation	100%	0%
Schroder International Selection Fund Global Gold	I Accumulation	100%	3%
Schroder International Selection Fund Global Gold	C Distribution GBP Hedge	97%	0%
Schroder International Selection Fund Global Gold	I Accumulation EUR Hedge	99%	1%
Schroder International Selection Fund Global High Yield	I Accumulation	33%	17%
Schroder International Selection Fund Global Multi-Asset Balanced	I Accumulation CHF Hedge	98%	0%
Schroder International Selection Fund Global Recovery	I Accumulation	30%	3%
Schroder International Selection Fund Global Unconstrained Bond	I Accumulation	37%	17%
Schroder International Selection Fund Latin American	I Accumulation	100%	1%
Schroder International Selection Fund Middle East	I Accumulation	100%	0%
Schroder International Selection Fund Multi-Asset Strategies	I Accumulation GBP Hedge	34%	34%
Schroder International Selection Fund QEP Global Value Plus	I Accumulation	100%	3%
Schroder International Selection Fund Strategic Beta	I Accumulation	100%	4%
Schroder International Selection Fund Swiss Equity Opportunities	I Accumulation	100%	1%
Schroder Property FCP-FIS – Schroder Property Eurologistics Fund No.1 (A)	B	100%	1%
Schroder Property FCP-FIS – Schroder Property Eurologistics Fund No.1 (B)	B	100%	3%

38. Subsidiaries and other related undertakings continued

(b) Related undertakings arising from the Company's interests in structured entities continued

The registered offices for each of the related undertakings listed on page 156 to 158 and in the table above are reflected by country below:

UK

31 Gresham Street, London, EC2V 7QA, United Kingdom

Australia

Level 20, Angel Place, 123 Pitt Street, Sydney, NSW 2000, Australia

Bermuda

Wellesley House, 90 Pitts Bay Road, Pembroke, HM08, Bermuda

Brazil

Praça XV De Novembro, 20 – 30. Andar, Centro, Rio de Janeiro, Brazil

Cayman Islands

Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands

Luxembourg

The registered office for the Luxembourg related undertakings is 5 rue Höhenhof, L-1736 Senningerberg, Luxembourg, except for the following:

The registered office for the following related undertakings is 80, route d'Esch, L-1470 Luxembourg:

Schroder Property FCP-FIS – Schroder Property German Residential Fund

Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (A)

Schroder Property FCP-FIS – Schroder Property EuroLogistics Fund No.1 (B)

Japan

1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan

United States

The registered office for the United States related undertakings is 690 Lee Road, Wayne, PA 19087, except for the following:

The registered office the following related undertakings is 7 Bryant Park, New York, New York, 10018-3706, USA

Schroder Short Duration Bond Fund

Schroder Emerging Markets Small Cap Fund

Independent auditors' report to the members of Schroders plc

Report on the audit of the financial statements

Opinion

In our opinion, Schroders plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Schroders plc statements of financial position as at 31 December 2017; the Consolidated income statement and the Consolidated statement of comprehensive income, the Consolidated and Schroders plc cash flow statements, and the Consolidated and Schroders plc statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none"> – Overall Group materiality: £40.0 million (2016: £32.2 million), based on 5% of profit before tax and exceptional items. – Overall Company materiality: £46.0 million (2016: £43.9 million), based on 1% of total assets.
Audit scope	<ul style="list-style-type: none"> – The Group has three business segments, Asset Management, Wealth Management and the Group segment, consisting of over 140 legal entities operating in 29 countries. – We audited the complete financial information for 14 legal entities, due to their size and/or risk characteristics. – Taken together, the territories and functions in the scope of audit work accounted for 84% of the Group's revenues, 82% of the Group's profit before tax and exceptional items and 98% of the Group's total assets.
Key audit matters	<ul style="list-style-type: none"> – Group – Risk of misstatement of revenue and cost of sales. – Group – Valuation and completeness of uncertain tax liabilities. – Group – Acquisitions accounting.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at the Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements, including but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation and equivalent local laws and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, review of significant components' work and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
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Group – Risk of misstatement of revenue and cost of sales

Refer to page 59 (Audit and Risk Committee Report) and note 2 – Revenue, note 3 – Cost of sales

Revenue, which comprises management fees, performance fees, other income and Wealth Management interest income, is the result of business activities within both the Asset Management and Wealth Management segments. Commissions, external fund manager fees, distribution fees payable and Wealth Management interest expense are recorded as an expense within cost of sales. The Group recognised revenue of £2,511.7 million (2016: £2,144.9 million) and cost of sales of £501.5 million (2016: £432.1 million).

The calculations of revenue and cost of sales are largely automated. There are a number of inherent risks in calculating certain types of revenue and cost of sales, including the interpretation and manual input of key contractual terms and the identification and valuation of applicable Assets Under Management (AUM), which could result in errors. The bespoke and complex nature of certain investment management agreements, distribution agreements and other contractual terms involving multiple entities globally requires effective monitoring to ensure all financial terms and conditions are captured completely and accurately and applied appropriately.

Performance fees also remain an area of focus. The calculation basis is set out in the relevant fund prospectus or investment management agreement. An increased risk of error exists due to the complexity in both in the interpretation of the agreements as well as the calculation of the manual components as the performance of relevant assets is compared to a relevant benchmark.

We understood the significant revenue and cost of sale items and identified where there was a higher risk of error, due to manual processes, bespoke or complex contractual terms, and areas of judgement so that we could focus our work in these areas.

We tested the operating effectiveness of key controls in place across the Group relevant to those revenue and cost of sales calculations, including the AUM, set up and maintenance of contractual terms and fee billing and commission payment systems.

We also obtained and assessed independent assurance reports for the relevant controls at the third party administrators and considered whether there was any impact on our audit.

Where the calculations are automated, we used computer assisted auditing techniques to recalculate revenue, management fee rebates and commission expenses including testing changes to revenue systems and processes during the year. On a sample basis, we agreed key inputs into the systems back to contracts, and re-performed calculations involving manual processes.

We re-performed a sample of performance fee calculations to check that performance fees were appropriately calculated. We tested the data used to the Group's underlying systems, agreed the basis of calculation to the contractual terms and agreed the benchmark performance to an independent third party source.

Our testing did not identify any evidence of material misstatement.

Group – Valuation and completeness of uncertain tax liabilities

Refer to page 59 (Audit and Risk Committee Report) and note 6 – Tax expense.

The Group is required to make estimates in respect of potential uncertain tax positions. As the Group operates across multiple countries with differing tax regimes, there is an inherent risk in the interpretation and application of the legislation in each territory in respect of the Group's global business. For most organisations, there is heightened risk of challenge from tax authorities over the application of legislation, both locally in individual territories and cross border, which increases the uncertainty over the completeness and valuation of tax balances. This led us to focus on this area.

For a number of operating companies within the Group the taxable profit is generated, in part, through the allocation of total Group revenue based on the nature of activities performed in each country and the relevant arm's length fee basis for those activities. This procedure is governed by a transfer pricing policy to ensure revenue and costs are recognised appropriately in accordance with the applicable tax legislation.

The Group had a tax charge of £165.8 million (2016: £127.9 million) for the year.

We compared the Group's transfer pricing policy against our understanding of the activities of the Group and the OECD principles for Multinational Enterprises and Tax Administrations and local tax legislation. We tested the application of the transfer pricing by legal entity within our revenue testing through recalculation of the allocations and agreeing the key inputs to underlying agreements.

We considered management's approach to uncertain tax positions and tested the calculation of the current and deferred tax positions estimated at the individual legal entity level and at the Group level.

We considered management bias and performed sensitivity analysis to determine the impact of changes in the key assumptions, both individually and in aggregate.

We did not identify any evidence of material misstatements.

Independent auditors' report to the members of Schroders plc

Key audit matter

Group – Acquisitions accounting

Refer to page 59 (Audit and Risk Committee Report) and note 29 – Business combinations.

During the year the Group made a number of acquisitions, the most significant of which is Adveq Holding AG and the wealth management business of C. Hoare & Co. The accounting for acquisitions can be complex, including the identification and valuation of assets and liabilities acquired. This was an area of focus for our audit.

The Group is required to identify and assess the fair value of the net assets acquired and the valuation of the goodwill attributable, which is inherently subjective in nature. Our focus was to assess management's determination of fair value for the identified assets and liabilities acquired.

At 31 December 2017 the goodwill from acquisitions totalled £595.1 million and acquired intangible assets total £124.0 million.

How our audit addressed the key audit matter

We read and understood the legal agreements entered into by the Group in relation to the acquisitions and considered the basis of their inclusion in the consolidated financial statements.

We tested the consideration and the identification and valuation of the identified net tangible and intangible assets acquired. We gathered evidence to confirm that the accounting treatment was in line with IFRS 3 Business Combinations.

We tested and challenged the valuation models prepared by the Group for the separately identified intangible assets and, with respect to the revenue receivable and employee liabilities, acquired tangible net assets. We tested these models by: comparing the key assumptions (for example discount rate, growth rates and longevity of acquired client relationships) against available market data; testing key data inputs to source records (for example assets under management); and testing the carried interest calculations.

We also performed sensitivity analysis to determine the impact of plausible alternative assumptions, both individually and in aggregate. We have evaluated the appropriateness of the disclosures included within the Group financial statements relating to the acquisitions completed during the year and up to the date of this report.

We did not identify any evidence of material misstatements.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group operates with four centralised finance functions in the UK, Luxembourg, Switzerland and Singapore along with smaller functions in many of the territories in which they operate.

In establishing the overall approach to the audit of the Group, we considered our assessment of the risk of material misstatement within each consolidated entity. We concluded that 14 entities generated significant activities or balances materially relevant to the results of the Group through the consideration of various factors such as their contribution to the Group's profit before tax and exceptional items, their contribution to significant risk areas and to provide sufficient evidence over each line item in the Group's financial statements. We determined the audit work that needed to be performed by us, as the Group engagement team, or by local teams within PwC UK or from other PwC network firms. Where the work was performed by local audit teams, we determined the level of involvement we needed to have in the audit work for those entities to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

In connection with this year's audit the Group team met with all the local audit teams responsible for each of the 14 entities identified as being significant to the scope of Group audit, as well as holding regular discussions with those teams throughout the audit process. In addition we met with the Group's centralised finance teams in the UK, Singapore, Luxembourg and Switzerland.

The Group consolidation, financial statement disclosures and a number of Group items, including valuation of investments, goodwill and acquired intangible assets and employee benefits expense, were audited by the Group engagement team.

Taken together the entities in scope for the Group audit accounted for 84% of the Group's revenues, 82% of the Group's profit before tax and exceptional items and 98% of the Group's total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£40.0 million (2016: £32.2 million).	£46.0 million (2016: £43.9 million).
How we determined it	5% of profit before tax and exceptional items.	1% of total assets.
Rationale for benchmark applied	Profit before tax is a standard benchmark used in determining materiality. We have adjusted it for exceptional items given the one-off nature of these items, which would distort the basis of the calculation.	Total assets is a standard benchmark when determining the materiality of a holding Company. For the purposes of the Group audit, we applied a lower materiality of £17.0 million for certain account balances, classes of transaction and disclosures that were relevant to the Group financial statements.

For each entity in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £7.0 million to £28.0 million. Certain entities were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.5 million (Group audit) (2016: £1.5 million) and £0.9 million (Company audit) (2016: £0.8 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report, Directors' report and Corporate Governance report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent auditors' report to the members of Schroders plc

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

Corporate Governance report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (the "DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 36 and 60 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 36 and 93 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 94, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 56 to 61 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

- In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 94, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

The Group listed in 1959 and we have been auditors of the Group since this date, with subsequent annual reappointment by the members at the Annual General Meeting. Based on available records, the period of total uninterrupted engagement is 59 years, covering the years ended 31 December 1959 to 31 December 2017.

Andrew Kail (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2018

Shareholder information

Schroders plc

Registered in England and Wales Company No. 3909886

Registered office

31 Gresham Street London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 6965
Email: companysecretary@schroders.com
schroders.com

Share and Loan Note Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

UK Shareholder and Loan Noteholder helpline:

Freephone (UK callers only): 0800 923 1530
International: +44 117 378 8170
Fax: +44 (0) 370 703 6101
investorcentre.co.uk

Financial calendar

Ex-dividend date	22 March 2018
Record date	23 March 2018
DRIP election date deadline	12 April 2018
Annual General Meeting	26 April 2018
Final dividend payment date	3 May 2018
Half-yearly results announcement	26 July 2018
Interim dividend paid*	September 2018

* Date to be confirmed.

Annual General Meeting

Our AGM will be held at 11.30 a.m. on 26 April 2018 at 31 Gresham Street, London EC2V 7QA.

Investor Centre

Computershare is the Company's share and loan note registrar. Investor Centre is Computershare's free, secure, self-service website where holders can manage their interests online.

The website enables holders to:

- View share and loan note balances
- Change address details
- View payment and tax information
- Update payment instructions
- Update communication instructions

Holders can register their email address at investorcentre.co.uk to be notified electronically of events such as AGMs, and can receive shareholder and loan note communications such as the Annual Report and Accounts and the Notice of Meeting online.

Enquiries and notifications concerning dividends, interest payments, share or loan note certificates or transfers and address changes should be sent to the Registrar.

Dividends and interest payments

Paying dividend and interest payments into a bank or building society account helps reduce the risk of fraud and will provide you with immediate access to your funds. Applications for an electronic mandate can be made by contacting the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated dividend confirmation which will be sent to you in September each year at the time the interim dividend is paid. You will receive a tax voucher each time you are paid an interest payment.

Dividend confirmation and interest payment tax vouchers are available electronically at investorcentre.co.uk to those holders who have their payments mandated to their bank or building society accounts and who have expressed a preference for e-communications.

The Company operates a Dividend Reinvestment Plan (DRIP) which provides shareholders with a way of increasing their shareholding in the Company by reinvesting their dividends. A copy of the DRIP terms and conditions and application form can be obtained from the Registrar.

Details of dividend payments can be found in the Directors' report on page 92.

Schroders offers a service to shareholders in participating countries which enables dividends to be received in local currencies. You can check your eligibility and/or request a mandate form by contacting the Registrar.

Floating Rate Unsecured Loan Notes

As set out in the Deed constituting the Floating Rate Unsecured Loan Notes (Loan Notes), all outstanding Loan Notes will be automatically redeemed on 30 June 2018 and the redemption payment and accrued interest paid to Loan Noteholders on 2 July 2018.

Overseas branch register

An overseas branch register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to the Registrar.

Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FCA before getting involved by visiting register.fca.org.uk.
- Report the matter to the FCA by calling 0800 111 6768 or visiting fca.org.uk/consumers/report-scam-unauthorised-firm.
- Do not deal with any firm that you are unsure about.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at fca.org.uk/consumers/unauthorised-firms-individuals#list.

More detailed information on this or similar activity can be found on the FCA website at fca.org.uk/consumers/avoid-scams-unauthorised-firms.

Capital gains tax

Capital gains tax values for the Company's shares as at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.

Five year consolidated financial summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Before exceptional items					
Profit before tax	800.3	644.7	609.7	565.2	507.8
Tax	(171.6)	(132.4)	(126.3)	(113.9)	(103.0)
Profit after tax	628.7	512.3	483.4	451.3	404.8
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
After exceptional items					
Profit before tax	760.2	618.1	589.0	517.1	447.5
Tax	(165.8)	(127.9)	(121.6)	(103.9)	(94.8)
Profit after tax	594.4	490.2	467.4	413.2	352.7
	2017 Pence	2016 Pence	2015 Pence	2014 Pence	2013 Pence
Pre-exceptional earnings per share:					
Basic earnings per share ¹	226.9	186.3	176.9	166.8	149.9
Diluted earnings per share ¹	222.4	182.4	172.2	161.5	144.6
	2017 Pence	2016 Pence	2015 Pence	2014 Pence	2013 Pence
Post-exceptional earnings per share:					
Basic earnings per share ¹	215.3	178.3	171.1	152.7	130.6
Diluted earnings per share ¹	211.0	174.5	166.5	147.8	126.0
	2017	2016	2015	2014	2013
Dividends:					
Cost (£m)	267.6	236.6	226.3	177.7	123.5
Pence per share ²	98.0	87.0	83.0	66.0	46.0
Total equity (£m)	3,471.0	3,152.8	2,795.6	2,537.8	2,268.6
Net assets per share (pence)³	1,229	1,115	990	898	802
	2017 Number	2016 Number	2015 Number	2014 Number	2013 Number
Group employees at year end 31 December					
United Kingdom	2,535	2,264	1,988	1,889	1,913
Europe, Middle East and Africa	822	716	686	628	590
Americas	353	331	321	278	294
Asia Pacific	909	834	789	761	731
	4,619	4,145	3,784	3,556	3,528

1. See note 7 for the basis of this calculation.
2. Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.
3. Net assets per share are calculated by using the actual number of shares in issue at the year end date (see note 21).

Exchange rates - closing 31 December	2017	2016	2015	2014	2013
Sterling:					
Euro	1.13	1.17	1.36	1.29	1.20
US dollar	1.35	1.24	1.47	1.56	1.66
Swiss franc	1.32	1.26	1.48	1.55	1.47
Australian dollar	1.73	1.71	2.03	1.91	1.85
Hong Kong dollar	10.57	9.58	11.42	12.09	12.84
Japanese yen	152.39	144.12	177.30	186.95	174.08
Singaporean dollar	1.81	1.79	2.09	2.07	2.09
Exchange rates - average	2017	2016	2015	2014	2013
Sterling:					
Euro	1.15	1.23	1.38	1.24	1.18
US dollar	1.30	1.36	1.53	1.65	1.57
Swiss franc	1.27	1.34	1.48	1.51	1.45
Australian dollar	1.69	1.83	2.04	1.83	1.64
Hong Kong dollar	10.10	10.52	11.84	12.78	12.18
Japanese yen	145.42	149.31	184.79	175.15	152.51
Singaporean dollar	1.79	1.88	2.10	2.09	1.96

Glossary

Alternative performance measures

An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Certain of the Group's APMs exclude exceptional items which are defined in note 1(b) and presented separately in the Consolidated income statement. The Group's APMs are defined below.

Annualised net new revenue

The net operating revenue that would be earned over a one year timeframe if the net new business was all transacted on the same day and there were no market movements or other changes to assets under management or fee rates over that year. Calculated as gross new funds from clients multiplied by the applicable net operating revenue margin for each flow, less gross funds withdrawn multiplied by the applicable net operating revenue margin for each flow. This measure provides additional information to better assess the impact of net new business on the Group's net operating revenue.

Basic or diluted earnings per share before exceptional items

Profit after tax but before exceptional items divided by the relevant weighted average number of shares (see note 7). The presentation of earnings per share before exceptional items provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

Payout ratio

The total dividend per share in respect of the year (see note 8) divided by the pre-exceptional basic earnings per share.

Profit before tax and exceptional items

Profit before tax but excluding exceptional items. This presentation provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group.

Ratio of total costs to net income

Total Group costs before exceptional items divided by net income before exceptional items. A 65% ratio is targeted to ensure costs are aligned with net income, although we recognise that in weaker markets the ratio may be higher than our long-term target.

Total compensation ratio

Pre-exceptional compensation costs (see note 5) divided by pre-exceptional net income. By targeting a total compensation ratio of 45 to 49%, depending upon market conditions, we align the interests of shareholders and employees.

Active management

The management of investments based on active decision-making rather than aiming to replicate an index.

AIFMD

The Alternative Investment Fund Managers Directive was implemented in the UK in July 2013 and is a regulatory framework for alternative investment fund managers, including managers of hedge funds, private equity firms and investment trusts.

Alpha

Excess return over market returns relative to a market benchmark.

Assets under administration (AUA)

Assets advised by the Best Practice and Evolution Wealth Independent Financial Adviser (IFA) networks where Schroders solely provides administrative support, including the Enable Client Relationship System and regulatory compliance services, but where the IFAs are independent from the Schroders Group. 2016 assets under administration has been restated to exclude assets from which we only derive transactional non-recurring revenues.

Assets under management (AUM)

The aggregate value of assets managed on behalf of clients. In Wealth Management this includes assets where Schroders provides advisory services but the investment decisions are made by the client. AUM also includes assets held in custody where the client independently makes investment decisions, whether it is through direct contact with Schroders or via the Fusion wealth platform.

For Schroder Adveq, the aggregate value of assets managed is based on committed funds by clients. This is changed to the lower of committed funds and net asset value, typically after seven years from the initial investment, in line with the fee basis.

Assets under management and administration (AUMA)

The combined value of AUA and AUM.

Basis point (bps)

One one-hundredth of a percentage point (0.01%).

BEIS Committee

The Business, Energy and Industrial Strategy Committee is a select committee of the House of Commons in the Parliament of the United Kingdom.

Beta

Market returns.

Branded funds

Funds where the assets are held and managed by the same investment management company. These funds are typically branded with the company's name (e.g. Schroder UK Alpha Plus Fund).

Carbon dioxide equivalent (CO₂e)

A standard unit for measuring carbon footprints. It enables the impact of different greenhouse gas emissions on global warming to be expressed using an equivalent amount of carbon dioxide (CO₂) as a reference.

CDP

Formerly known as the Carbon Disclosure Project.

Client investment performance

Client investment performance is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products. Calculations for investment performance are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking.

The calculation includes 100% of internally-managed Asset Management assets, excluding Liability-Driven Investments (LDI) strategies, that have a complete track record over the respective reporting period. Assets held in LDI strategies, which currently amount to £25 billion, are excluded as these are not seeking to outperform a stated objective but to match the liability profile of pension funds. Assets managed by third parties are excluded and primarily comprise the Luxembourg-domiciled GAIA fund range of £6.4 billion and legacy private equity assets, but include Schroder Adveq managed private equity assets of £1.6 billion.

Performance is calculated relative to the relevant stated comparator for each strategy as below. These fall into one of four categories, the percentages for each of which refer to the three year calculation:

- For 79% of assets included in the calculation, the comparator is the stated benchmark.
- If the stated comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 5% of assets in the calculation.
- Assets for which the stated comparator is an absolute return target are measured against that absolute target. This applies to 10% of assets in the calculation.
- Assets with no stated objective are measured against a cash return, if applicable. This applies to 6% of assets in the calculation.

CMA

Competition and Markets Authority.

Compensation cost

Total cost of employee benefits.

Defined benefit (DB) pension scheme

A pension benefit where the employer has an obligation to provide participating employees with pension payments that represent a specified percentage of their salary for each year of service.

Defined contribution (DC) pension scheme

A pension benefit where the employer's contribution to an employee's pension is measured as, and limited to, a specified amount, usually a percentage of salary. The value of the pension pot can go up or down depending on how the investments perform.

DEFRA

Department for Environment, Food and Rural Affairs.

Employee benefit trust

A type of discretionary trust established to hold cash or other assets for the benefit of employees, such as to satisfy share awards.

EPS

Earnings per share.

ESG

Environmental, social and governance.

EU27

The 27 countries within the European Union involved with negotiating with the UK on Brexit.

Family offices

These manage the financial and investment side of ultra high net worth individuals or families.

FCA

Financial Conduct Authority of the United Kingdom.

Fitch Investment Management Quality Rating

A forward-looking, relative assessment of an investment manager's investment capabilities and the strength of its operational platform. Ratings have five key pillars: investment process; investment resources; risk management; investment performance and the company, including client servicing. Ratings are assigned on a five tiered scale from 'Excellent' to 'Weak'. Excellent indicates that the investment manager has extremely strong investment capabilities and operational characteristics.

FRC

Financial Reporting Council.

GAIA

Global Alternative Investor Access.

GHG Protocol

Greenhouse gas protocol, a comprehensive global standardised frameworks to measure and manage greenhouse gas emissions.

GMC

Group Management Committee.

GOC

Global Operations Committee.

GRC

Group Risk Committee.

HM Revenue & Customs

Her Majesty's Revenue and Customs.

ICAAP

Internal Capital Adequacy Assessment Process.

IFA

Independent Financial Adviser.

IFRS

International Financial Reporting Standards.

ILAAP

Internal Liquidity Adequacy Assessment Process.

Institutional sales channel and clients

Institutional clients, such as pension funds, insurance companies and government funds, come to Schroders through their own adviser or consultant. Assignments are typically highly specific and may be combined with their other investments in a range of asset classes and with other managers they employ.

Intermediary sales channel and clients

Schroders works with intermediaries such as banks, insurance companies, platforms and independent financial advisers. Intermediary assets under management included branded funds and sub-advisory mandates.

Investment capital

Investible equity from shareholders held in excess of operating requirements. It is managed with the aim of achieving a low volatility return. It is mainly held in cash, government and government-guaranteed bonds, investment grade corporate bonds and Schroders' funds. Investment capital is also used to help support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions that will accelerate the development of the business.

Investment returns

The increase in AUM attributable to investment performance, market movements and foreign exchange.

LGBT+

Lesbian, Gay, Bisexual and Transgender and other groups of sexual and gender minorities.

Liability-driven investment (LDI)

A form of investing where the main goal is to gain and maintain sufficient assets to meet known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes.

Life Company

Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper.

MiFID II

The second iteration of the Markets in Financial Instruments Directive. MiFID II is an EU directive which standardises regulation for investment services throughout the European Economic Area.

MRTs

Material risk takers. Employees deemed to be material risk takers under one or more of the regulatory regimes that applies to the Group and its subsidiaries, such as the UCITS Directive or AIFMD.

Net income

A sub-total comprising net operating revenue, net gains on financial instruments and other income and share of profit of associates and joint ventures.

Net new business

Also referred to as net new money invested. New funds from clients less funds withdrawn by clients. This is also described as net inflows (when positive) or net outflows (when negative). New funds and funds withdrawn are calculated as at 31 December 2017 on the basis of actual funding provided or withdrawn.

Net operating revenue

A sub-total consisting of revenue less cost of sales as defined in notes 2 and 3 of the financial report.

Net operating revenue margins

Asset Management and/or Wealth Management net operating revenue divided by the relevant average AUM.

Passive products

Products whose stated objective is to replicate the return of an index.

Shareholder information

Pillar 1

The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal.

Pillar 2

The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1.

Pillar 3

This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at schroders.com/ir.

Platforms

Platforms in the UK savings market offer a range of investment products such as unit trusts, Individual Saving Accounts (ISAs), unit-linked life and pension bonds and Self-Invested Personal Pensions (SIPPs) to facilitate investment in many funds from different managers through one portal.

PRA

Prudential Regulation Authority.

PRIIPs

Packaged Retail Investment and Insurance-based Products. PRIIPs make up a broad category of financial assets that are regularly provided to consumers in the EU. It covers all packaged, publicly marketed financial products that have exposure to underlying assets, provide a return over time and have an element of risk.

RCA

Risk and Control Assessment.

Regulatory capital

The amount of risk capital set by legislation or local regulators, which companies must hold against any difficulties such as market or credit risks.

Regulatory surplus capital

Total equity less the Group's overall regulatory capital requirement and regulatory deductions, in accordance with the EU Capital Requirements Regulation as set out in the Group's Pillar 3 disclosures.

Robo-advice

Automated, algorithm-based portfolio management advice provided by an online wealth management service using software rather than human financial planners.

Seed and co-investment capital

Seed capital comprises initial investment put into a fund by the business to allow it to develop a performance track record before it is marketed to potential clients. Co-investment comprises investment made alongside our clients.

Strategic capabilities

A new approach to categorising Schroders' product offering, which moves away from the traditional asset class view and instead focuses on delivering specific outcomes designed to meet a broad range of client needs:

- Absolute Return: A range of typically unconstrained strategies which seek to produce a positive return over a cycle.
- Alpha Equity: An actively-managed approach to equity investing aimed at generating higher returns and meeting client needs.
- Credit: A diverse range of credit strategies across the risk/return spectrum designed to offer a range of outcomes to our clients.
- Emerging Markets: A broad cross-asset class product range which provides access to the growth offered by emerging markets.
- Income: A broad range of products which aim to provide clients with a regular, sustainable income.
- Multi-Asset Solutions: Our multi-asset teams allocate actively to different asset classes to deliver specific client outcomes.
- Private Assets: A wide range of capabilities which provide access to opportunities not available in public markets.
- Retirement: A long-term approach to improving retirement outcomes, whether through capital growth, inflation protection or sustainable income.
- Solutions: A broad range of long-term solutions designed to help clients better manage risk in their portfolios.
- Sustainability: Integrating sustainability research across asset classes and geographies to generate better outcomes for clients.

Sub-advised funds

Funds where the assets are held by one company, while the management of them is contracted to another investment manager.

Total capital requirement

The requirement to hold the sum of Pillar 1 and Pillar 2A capital requirements. Pillar 2A capital requirements are supplementary requirements for those risk categories not captured by Pillar 1, depending on specific circumstances of a company, as set out by the PRA.

Total dividend per share

Unless otherwise stated, this is the total dividend in respect of the year, comprised of the interim dividend and the proposed final dividend. This differs from the IFRS dividend which is comprised of the prior year and current year interim dividends declared and paid during the year.

Total equity

Total assets less total liabilities.

UCITS

Undertakings for the Collective Investment in Transferable Securities. UCITS is a regulatory framework of the European Commission that creates a harmonised regime throughout Europe for the management and sale of investment funds.

UCITS / AIF MRTs

Employees deemed to be material risk takers under the UCITS Directive or AIFMD.

UK Stewardship Code

A set of principles or guidelines released in 2010 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies.

UN PRI

The United Nations-supported Principles for Responsible Investment Initiative is an international network of investors working together to implement the six Principles for Responsible Investment. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices.



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