Schroders

Annual Report and Accounts 2018

Schroder Investment Company Limited

Year Ended 31 December 2018

Registered Number: 00647370

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Officers and professional advisers

Directors

Tim McCann
Wayne Mepham
Graham Staples
Nicholas Taylor

Secretary

Schroder Corporate Services Limited

Registered Office

1 London Wall Place
London
EC2Y 5AU

Independent Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Schroders

Strategic report

The Directors present their Strategic report on Schroder Investment Company Limited (the Company) for the year ended 31 December 2018.

Results and Review of the business

The loss for the year, after tax, was £11,165,000 (2017: £3,831,000 loss after tax).

During the year net assets decreased by £11,325,000 (2017: decreased of £4,434,000) to £44,038,000 (2017: £55,363,000).

The Company's business is as an investment holding company. The Company holds investments in other Schroders plc Group (Group) companies, seed capital, debt securities and other investments. The Company's investment and operating principles are expected to remain unchanged in 2019.

The Directors consider the results and the Company's financial position at 31 December 2018 to be satisfactory based on the Company's capital structure.

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. The Group is well positioned to manage the challenges that may arise as a result of Brexit. Whilst all the legal and regulatory challenges of Brexit are not yet clear, our structure provides us with flexibility in deciding how best to respond and continue to service our clients. We believe that the Company is well placed to weather these challenges and to adapt to ongoing changes in the political, economic and regulatory environment.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Schroders plc's other subsidiary undertakings which, with Schroders plc, form the Schroders plc Group (the Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the 'Key risks and mitigations' in the Strategic report and 'Risk and internal controls' within the Governance section of the Schroders plc annual report and accounts for the year ended 31 December 2018 (Schroders Report). The Schroders Report does not form part of this report.

Key performance indicators

The Directors of the Group manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, is discussed in the 'Strategic report' in the Schroders Report. The Schroders Report does not form part of this report.

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland,
Authorised signatory
Schroder Corporate Services Limited
Company Secretary
11 March 2019

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018. The information contained in the Strategic report and the Statement of Directors' responsibilities forms part of this Directors' report.

General information

The Company is a private limited company, limited by shares incorporated and domiciled in England and Wales. The Company's ultimate parent undertaking and controlling entity is Schroders plc, which together with the Company and Schroders plc's other subsidiary undertakings, form the Group.

Future developments

The future developments of the Company are disclosed within the Strategic report.

Dividends

During the year no dividends were paid or proposed (2017: nil).

Risk management and use of financial instruments

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 'Key risk and mitigations' in the Strategic report and 'Risk and internal controls' within the Governance section of the Schroders Report. The Company's specific risk exposures to financial instruments are explained in note 13 to the financial statements. The Schroders Report does not form part of this report.

Going Concern

Taking all the above factors into consideration, including the nature of the Company and its business, the Directors are satisfied that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which is at least 12 months from the date the Annual Report and Accounts is signed. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors

The Directors of the Company who have served during the year and up to the date of signing are listed on page one. Between 1 January 2018 and 11 March 2019 the following change took place:

Director	**Resigned**
James Stewart	15 February 2019

Directors' liability insurance

Directors' and Officers' liability insurance is taken out by Schroders plc, the Company's ultimate parent company for the benefit of the Directors of the Company.

Employment policy

The Company had no employees during the year.

Directors' report (continued)

Independent Auditors and disclosure of information to independent Auditors

During the year, Ernst & Young LLP ('EY') was appointed as external auditor of the Company in accordance with section 487 of the Companies Act 2006. In accordance with section 487(2) of the Companies Act 2006 and in the absence of a notice proposing that the appointment be terminated at a general meeting, EY will be deemed to be reappointed for the next financial year.

To the best of the Directors' knowledge there is no relevant audit information of which EY is unaware. Each of the Directors has taken all reasonable steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by:

Matthew Buckland,
Authorised Signatory
Schroder Corporate Services Limited
Company Secretary
11 March 2019

Registered Office:
1 London Wall Place
London EC2Y 5AU
Registered in England and Wales No 00647370

Independent auditors' report to the member of Schroder Investment Company Limited

Opinion

We have audited the financial statements of Schroder Investment Company Limited (the 'Company') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report to the member of Schroder Investment Company Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Julian Young (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
~~11~~ 12 March 2019

Income statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net (losses) / gains on financial instruments and other income	3	(5,924)	3,132
Operating expenses	3	(654)	(1,093)
Operating (loss) / profit		**(6,578)**	**2,039**
Finance income	3	137	22
Finance charges	3	(8,555)	(7,138)
Net finance charge	3	(8,418)	(7,116)
Gain on disposal of subsidiaries		2,426	-
Loss before tax		**(12,570)**	**(5,077)**
Tax credit	4	1,405	1,246
Loss after tax		**(11,165)**	**(3,831)**

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Loss for the year		**(11,165)**	**(3,831)**
Items to be reclassified to the income statement on fulfilment of specific conditions:			
Net gains / (loss) on financial assets held at fair value through other comprehensive income / available-for-sale assets		54	(603)
		54	(603)
Reclassifications to the income statement:			
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income		(197)	-
Current income tax (charge) / credit on fixed income fair value through other comprehensive income / available-for-sale asset movements taken through equity	4(b)	(9)	4
Deferred tax credit / (charge) on fair value through other comprehensive income / available-for-sale investments	4(b)	2	(4)
Other comprehensive loss for the year, net of tax		**(150)**	**(603)**
Total comprehensive loss for the year, net of tax		**(11,315)**	**(4,434)**

Statement of financial position

as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	5	14,901	79,625
Trade and other receivables	6	956	15
Financial assets	7	311,074	182,585
Current tax asset		1,574	1,140
Investments in subsidiaries	8	188,282	191,263
Total assets		**516,787**	**454,628**
Liabilities			
Trade and other payables	9	472,131	398,706
Financial liabilities	10	347	440
Deferred tax	11	271	119
Total liabilities		**472,749**	**399,265**
Net assets		**44,038**	**55,363**
Total equity		**44,038**	**55,363**

The financial statements on pages 7 to 35 were approved by the Board of Directors on 11 March 2019 and signed on its behalf by:

Wayne Mepham
Director

Registered Number: 00647370

Statement of changes in equity

for the year ended 31 December 2018

	Share[1] capital £'000	Fair value[2] reserve £'000	Profit and[3] loss reserve £'000	Total £'000
At 1 January 2018	32,000	(750)	24,113	55,363
Restatement on adoption of IFRS 9	-	900	(910)	(10)
At 1 January 2018 (restated)	**32,000**	**150**	**23,203**	**55,353**
Loss for the year	-	-	(11,165)	(11,165)
Net gain on financial assets held at fair value through other comprehensive income	-	54	-	54
Transfers to income statement on disposal of financial assets held at fair value through other comprehensive income	-	(197)	-	(197)
Tax charge on fixed income portfolio movements taken through statement of other comprehensive income	-	(7)	-	(7)
Total comprehensive losses for the year, net of tax	**-**	**(150)**	**(11,165)**	**(11,315)**
At 31 December 2018	**32,000**	**-**	**12,038**	**44,038**

for the year ended 31 December 2017

	Share[1] capital £'000	Fair value[2] reserve £'000	Profit and[3] loss reserve £'000	Total £'000
At 1 January 2017	32,000	(147)	27,944	59,797
Loss for the year	-	-	(3,831)	(3,831)
Net loss on available-for-sale financial assets	-	(603)	-	(603)
Total comprehensive losses for the year, net of tax	**-**	**(603)**	**(3,831)**	**(4,434)**
At 31 December 2017	**32,000**	**(750)**	**24,113**	**55,363**

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each. See note 14 to the financial statements.

[2] The fair value reserve represents the difference between the cost (or, if an asset has been reclassified, the fair value at date of reclassification) and the fair value of unimpaired financial assets classified as fair value through other comprehensive income (2017: available-for-sale).

[3] The profit and loss reserve represents the profit or loss for the year together with certain other amounts recognised directly in other comprehensive income and transactions with shareholders.

Cash flow statement

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Operating profit		(6,578)	2,039
(Increase) / decrease in trade and other receivables		(956)	27
Increase in trade and other payables		73,220	61,008
Purchase of financial assets and financial liabilities		(333,662)	(503,135)
Disposal of financial assets and financial liabilities		205,775	525,182
Net gains on financial assets and financial liabilities		(1,035)	(2,966)
Adjustment for non-cash expenses		(10)	-
Transfers to income statement on disposal and impairment of fair value through other comprehensive income assets		197	-
Cash (used in) / generated from operating activities		(63,049)	82,155
Amounts received in respect of group tax relief		1,141	608
Overseas tax		(25)	-
Net cash (used in) / generated from operating activities		**(61,933)**	**82,763**
Investing activities			
Proceeds from the disposal of investment in subsidiaries		5,407	-
Interest received		152	7
Net cash generated from investing activities		**5,559**	**7**
Financing activities			
Interest paid		(8,350)	(6,984)
Net cash used in financing activities		**(8,350)**	**(6,984)**
Net (decrease) / increase in cash and cash equivalents		**(64,724)**	**75,786**
Opening cash and cash equivalents		79,625	3,839
Net (decrease) / increase in cash and cash equivalents		(64,724)	75,786
Closing cash and cash equivalents	5	**14,901**	**79,625**

Notes to the financial statements

for the year ended 31 December 2018

1. Presentation of financial statements

Financial information for the year ended 31 December 2018 is presented in accordance with International Accounting Standard ('IAS') 1 Presentation of Financial Statements.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('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 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 financial liabilities that are held at fair value through profit or loss or held at fair value through other comprehensive income (2017: available-for-sale).

The Company is a wholly-owned subsidiary of Schroder Financial Holdings Limited (incorporated in England and Wales) and is included in the consolidated financial statement of Schroders plc (incorporated in England and Wales) which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company's principal accounting policies have been consistently applied. Further information is provided below and highlighted in the notes to the accounts.

The Company has initially applied IFRS 9 from 1 January 2018. Due to the transition methods chosen by the Company in applying this new standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has applied IFRS 9 retrospectively, with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Comparatives were not restated.

The Company did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year end date.

The only standard or interpretation relevant to the Company that had been issued but not yet adopted at the year end was; 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 Company 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.

Notes to the financial statements

for the year ended 31 December 2018

2. 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 Company's accounting policies. 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 differ from 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 note 7, 'Financial assets', note 8, 'Investments in subsidiaries' and in note 13 'Financial instrument risk management'.

3. Revenues and expenses

Net (losses) / gains on financial instruments and other income
A portion of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through profit or loss. Net gains and losses on financial instruments at fair value through profit or loss principally comprise market returns on investments in debt securities, equities, pooled investment vehicles and gains and losses on derivatives (which mainly arise from hedging activities). Gains or losses on investments held at fair value through profit or loss, together with transaction costs, are recognised within 'net (losses) / gains on financial instruments and other income' in the income statement.

The remainder of the Company's financial assets that are measured at fair value are classified as financial assets at fair value through other comprehensive income. Unrealised gains and losses on debt securities classified as financial assets at fair value through other comprehensive income (2017: all financial assets classified as available-for-sale) are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is sold or otherwise realised. Net gains and losses on equity instruments that are classified as at fair value through other comprehensive are recorded in other comprehensive income and are not reclassified to profit or loss upon derecognition, but dividends are recognised in the income statement.

Impairment of financial assets is included in the income statement.

Foreign currency translation
Foreign currency financial assets and liabilities are translated at the rates of exchange ruling at the year end date and any exchange differences arising are taken to the income statement. Exchange differences are taken as they arise on the translation of assets and liabilities whose changes in value are taken directly through other comprehensive income.

Operating expenses
Operating expenses are recognised on an accruals basis as services are provided.

Net finance income and charges
Net finance charge comprises amounts due on the Company's investment capital and temporary surpluses or deficits in the Company's cash accounts held with banks or loans to or from related parties. Interest receivable and payable is recognised using the effective interest method and is recorded in the income statement within 'Net finance charge'.

Notes to the financial statements

for the year ended 31 December 2018

3. Revenues and expenses (continued)

	2018 £'000	2017 £'000
Included in net (losses) / gains on financial instruments and other income:		
Net (losses) on foreign exchange[1]	(148)	(357)
Net gains on financial assets held as fair value through other comprehensive income transferred to income statement on disposal and impairment	197	-
Net (losses) / gains on financial assets and liabilities held at fair value through profit or loss	(5,973)	3,489
	(5,924)	**3,132**

[1] Excludes foreign exchange on forward foreign exchange contracts. Such gains and losses are included in net gains on financial assets and liabilities held at fair value through profit or loss.

	2018 £'000	2017 £'000
Included in operating expenses:		
Fees payable for the audit of the Company	36	32
	36	**32**

	2018 £'000	2017 £'000
Net finance income and charges:		
Interest receivable on financial assets not at fair value through profit or loss	137	22
Interest payable on financial liabilities not at fair value through profit or loss	(8,555)	(7,138)
	(8,418)	**(7,116)**

Notes to the financial statements

for the year ended 31 December 2018

3. Revenues and expenses (continued)

Directors' emoluments

The emoluments set out below are in respect of 1 (2017: 2) Director whose emoluments were charged either in part or in full to the Company during the year. This Director has a contract of service with and receive their emoluments from another Group company. A charge is made by that Group Company in respect of the services it provides to the Company. The emoluments of 4 (2017: 3) Directors employed by and paid for by another Group company are included in the financial statements of that entity. Their emoluments are deemed to be wholly attributable to their services to these companies. These Directors therefore receive no incremental emoluments for their services to the Company.

	2018	2017
	£'000	£'000
Aggregate emoluments	3	8
	3	**8**

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors were £210 (2017: £1,000).

Retirement benefits have accrued to no (2017: none) Directors under a defined benefit scheme and to no (2017: 1) Directors under a defined contribution pension scheme.

During the year, 1 (2017: 2) Director became entitled to shares under the Group's Equity Compensation Plan, 1 (2017: 2) Director became entitled to shares under the Group's Equity Incentive Plan and no (2017: 1) Directors became entitled to shares under the Group's Long Term Incentive Plan.

Key management personnel remuneration

The Company has determined that the Board of Directors of the Company are the key management personnel of the Company.

The remuneration of key management personnel during the year was as follows:

	2018	2017
	£'000	£'000
Short-term employee benefits	3	9
Share-based payments	1	1
Other long-term benefits	-	1
	4	**11**

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £31,000 (2017: £275,000) and net interest and fee income of £7,000 (2017: £32,000)

Notes to the financial statements

for the year ended 31 December 2018

4. Tax credit

The Company pays taxes according to the rates applicable in the countries in which it operates. Most taxes are recorded in the income statement and relate to taxes payable for the reporting period (current tax).

(a) Analysis of credit in year

	2018 £'000	2017 £'000
Current tax:		
Current tax	(1,581)	(1,136)
Overseas tax	25	-
Adjustments in respect of prior years	(3)	(194)
Current tax credit for the year	**(1,559)**	**(1,330)**
Deferred tax:		
Origination and reversal of temporary differences	154	84
Total tax credit for the year	**(1,405)**	**(1,246)**

(b) Analysis of tax charge taken to statement of other comprehensive income

	2018 £'000	2017 £'000
Current income tax charge / (credit) on movements on assets held at fair value through other comprehensive income / available-for-sale assets	9	(4)
Deferred tax (credit) / charge on movements on assets held at fair value through other comprehensive income / available-for-sale assets	(2)	4
Tax charge in statement of other comprehensive income	**7**	**-**

(c) Factors affecting tax credit for the year

The UK standard rate of corporation tax for 2018 is 19% (2017: effective rate of 19.25%).

The tax credit for the year is lower (2017: higher) than the UK standard rate of corporation tax for the year of 19%. The differences are explained below:

	2018 £'000	2017 £'000
Loss before tax	**(12,570)**	**(5,077)**
Loss before tax multiplied by corporation tax at the UK standard rate of 19% (2017: 19.25%)	(2,388)	(977)
Effects of:		
Non-taxable dividend income	(249)	(84)
Non-taxable income net of non deductible expenses	(341)	(23)
Movement in unrecognised deferred tax	1,551	33
Effect of rate changes on deferred tax assets	-	(1)
Overseas tax	25	-
Adjustments in respect of prior years	(3)	(194)
Total income tax credit for the year	**(1,405)**	**(1,246)**

Notes to the financial statements

for the year ended 31 December 2018

5. Cash and cash equivalents

Cash and cash equivalents comprise of margin accounts and bank accounts with an original maturity of three months or less. Where the Company considers that such items are not to be used for settling its liabilities, for example, securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents.

	2018	2017
	£'000	£'000
Cash at bank	**14,901**	**79,625**

The book value of cash and cash equivalents approximates to their fair value.

6. Trade and other receivables

Trade receivables are recorded initially at fair value and subsequently at amortised cost.

The carrying amount of interest and non-interest bearing trade and other receivables at amortised cost approximates their fair value.

	2018	2017
	£'000	£'000
Current:		
Amounts owed by related parties (see note 15)	12	-
Other receivables	-	15
Non-current:		
Other receivable - Balance due from external party in relation to the sale of Vicarello Societa Agricola a Responsabilita Limitata	944	-
	956	**15**

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets

Items included within this caption on the face of the statement of financial position principally comprise investments in pooled investment vehicles, equities, derivatives and debt securities. It excludes financial assets and liabilities that are recorded under the following headings:

- Trade and other receivables
- Cash and cash equivalents;
- Trade and other payables; and
- Investments in subsidiaries.

Separate accounting policies are presented in respect of these excluded items.

Classification and measurement

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' ('IFRS 9'). IFRS 9 replaces the classification and measurement models previously contained in IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'). The classification and measurement of financial assets at 31 December 2018 is in accordance with IFRS 9 and the classification and measurement of financial assets at 31 December 2017 is in accordance with IAS 39 as the Company has not restated comparative information.

The Company initially records all financial assets at fair value. Under IFRS 9 the Company holds each financial asset either at fair value ('fair value through profit or loss' or 'fair value through other comprehensive income') or at amortised cost. Under IAS 39 the Company holds each financial asset either at fair value ('fair value through profit or loss' or 'available-for-sale') or at amortised cost ('held to maturity' or 'loans and receivables').

All purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Derivative contracts are included at fair value at the year-end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the year-end date between willing parties.

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for the year ended 31 December 2018

7. Financial assets (continued)

	2018		
	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
Non-current financial assets:			
Equity shares - unlisted	-	9,984	9,984
Current financial assets:			
Derivative contracts (see note 12)	-	2,248	2,248
Pooled investment vehicles	-	287,447	287,447
Equity shares - listed	-	11,395	11,395
	-	**311,074**	**311,074**

	2017		
	Available-for-sale £'000	Fair value through profit or loss £'000	Total £'000
Non-current financial assets:			
Equity shares - unlisted	9,262	-	9,262
Current financial assets:			
Derivative contracts (see note 12)	-	782	782
Debt securities - listed	154	-	154
Pooled investment vehicles	60,991	99,786	160,777
Equity shares - listed	-	11,610	11,610
	70,407	**112,178**	**182,585**

Fair value measurements

The Company 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 and derivatives. 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.

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

Fair value measurements (continued)
The Company's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. 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 comprises investments in equities, pooled investment vehicles 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 Company's level 2 financial instruments principally comprise foreign exchange contracts and certain debt securities. 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. These are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Guidelines 2015.

The Company's financial instruments held at fair value at the year end are analysed as follows:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets:				
Private equity including co-investments	-	-	9,984	9,984
Pooled investment vehicles	287,447	-	-	287,447
Equities	11,395	-	-	11,395
Derivative contracts	1,011	1,237	-	2,248
	299,853	**1,237**	**9,984**	**311,074**

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets:				
Debt securities	-	154	-	154
Private equity	-	250	9,000	9,250
Pooled investment vehicles	160,777	12	-	160,789
Equities	11,610	-	-	11,610
Derivative contracts	89	693	-	782
	172,476	**1,109**	**9,000**	**182,585**

Notes to the financial statements

for the year ended 31 December 2018

7. Financial assets (continued)

There were no transfers between levels during the year, apart from one investment which moved from level 2 to level 3 due to lack of observable market data.

Movements in financial assets and liabilities categorised as level 3 during the year are:

	2018 £'000	2017 £'000
At 1 January	9,000	9,000
Additions	750	-
Total losses recognised in the Income Statement	(16)	-
Transferred from level 2	250	-
At 31 December	**9,984**	**9,000**

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 will seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of financial assets are discussed below.

Valuation of financial assets where there is no quoted price

Such assets principally consist of investments in private equity. The determination of fair value requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation by the fund manager or advisor where this is performed before year end. In making this judgement the Company evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

Impairment in accordance with IFRS 9

IFRS 9 introduces an expected loss model for the calculation of impairment. 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. The carrying value of amortised cost financial assets is adjusted for impairment. Impairment is also recognised for debt securities that are classified as financial assets at fair value through other comprehensive income. The carrying value of these financial assets will not be adjusted, but the portion of the fair value adjustment relating to expected credit losses will be recognised in income statement rather than in other comprehensive income.

Impairment in accordance with IAS 39

In accordance with IAS 39, impairment was only recognised when a default occurs. The carrying value of amortised cost financial instruments was adjusted for impairment in accordance with the incurred loss model and was 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. Available for-sale financial assets were reviewed for impairment at the end of each reporting period. The carrying value of these financial assets was not adjusted, but the impairment loss was transferred from other comprehensive income to the income statement.

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8. Investments in subsidiaries

Subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Seed capital investments into funds operated by the Schroder Group where they are deemed to be subsidiaries are held as either available-for-sale or at fair value through profit or loss.

	2018 £'000	2017 £'000
At 1 January	191,263	191,263
Disposals	(2,981)	-
At 31 December	**188,282**	**191,263**

The disposal during the year relates to Vicarello Societa Agricola a Responsabilita Limitata which was sold to an external party and Schroder Ventures Holdings Limited which was liquidated.

The Group operates globally which results in the Company having a corporate structure consisting of a number of related undertakings, comprising subsidiaries. A full list of these undertakings, the country of incorporation (which in all cases is the principal place of business) and the ownership of each share class, as at 31 December 2018, is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group.

Additionally, related undertakings include where the Company has a significant holding of share class or unit class of a structured entity. 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.

All listed subsidiaries 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 set out below 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.

Name	Share Class	%	Address
UK			
Leadenhall Securities Corporation Limited [3]	Ordinary	100%	1 London Wall Place, London, EC2Y 5AU
Guernsey			
Schroder Venture Managers (Guernsey) Limited [4]	Non-cumulative Redeemable Preference shares	100%	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands

Notes to the financial statements

for the year ended 31 December 2018

8. Investments in subsidiaries (continued)

(a) Related undertakings arising from the Company's corporate structure (continued)

Other corporate related undertakings

The remaining related undertakings arising from the Company's corporate structure are listed below. These include subsidiaries (other than those listed above), and are fully owned unless otherwise stated.

Name	Share Class	%	Address
UK			
J Henry Schroder Wagg & Co Limited [2]	Ordinary	100%	1 London Wall Place, London, EC2Y 5AU
Guernsey			
Schroder Investments (Guernsey) Limited [4]	Ordinary	99.99%	PO Box 334, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3UF, Channel Islands
Schroder Ventures European Fund Managers Limited (in liquidation) [4]	Ordinary	50%	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL, Channel Islands
Schroder Ventures Investments Limited [5]	Ordinary	50%	
SV (Nominees) Limited [5]	Ordinary	50%	

[1]Asset Management [2]Wealth management [3]Management of Group capital [4]Holding company [5]Other

(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. Additionally, 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.

Notes to the financial statements

for the year ended 31 December 2018

8. Investments in subsidiaries (continued)

(b) Related undertakings arising from the Company's interests in structured entities (continued)

At 31 December 2018 the Company had a significant holding in the following investment funds:

Fund name	Share / unit class	Holding in undertaking share / unit class	Holding in undertaking via share / unit class
United Kingdom			
Schroder Absolute Return Bond Fund	X Income	100%	15%
Schroder Dynamic Planner Portfolio 3	Z Accumulation	93%	93%
Schroder Dynamic Planner Portfolio 4	Z Accumulation	65%	62%
Schroder Dynamic Planner Portfolio 5	Z Accumulation	68%	68%
Schroder Dynamic Planner Portfolio 6	Z Accumulation	82%	82%
Schroder Dynamic Planner Portfolio 7	Z Accumulation	88%	88%
Schroder Fusion Managed Defensive Fund	F Accumulation	57%	57%
Schroder Fusion Portfolio 3	F Accumulation	29%	29%
Schroder Multi-Asset Total Return Fund	X Accumulation	51%	33%
Schroder Securitized Credit Fund Limited	-	99%	99%
Schroder US Equity Income Maximiser	L Accumulation	98%	13%
Australia			
Schroder Real Return Fund	W Distribution	33%	33%
Brazil			
Schroder Best Ideas FIA	-	98%	98%
Schroder Fundo de Investimento Multimercado Low Vol	-	100%	100%
Sicredi - FI Multimercado Elite Credito Privado LP	-	31%	31%
Cayman Islands			
Musashi Smart Premia Fund	C	100%	0%
Japan			
Schroder YEN Target (Annual)	-	33%	33%
Schroder YEN Target (Semi-Annual)	-	70%	70%
Luxembourg			
Schroder Alternative Solutions Agriculture Fund	I Accumulation	100%	1%
Schroder Alternative Solutions Agriculture Fund	I Accumulation GBP Hedged	97%	0%
Schroder Alternative Solutions Argentine Bond Fund	C Accumulation	98%	95%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation	99%	89%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation EUR Hedged	75%	0%
Schroder Alternative Solutions Commodity Total Return Fund	I Accumulation GBP Hedged	99%	8%
Schroder GAIA BlueTrend	C Accumulation CHF Hedged	43%	0%
Schroder GAIA Contour Tech Equity	C Accumulation GBP Hedged	41%	0%
Schroder GAIA Helix	I Accumulation	100%	100%
Schroder GAIA II NGA Turnaround	I Accumulation	100%	52%
Schroder ISF Dynamic Indian Income Bond	I Accumulation	45%	42%
Schroder ISF Emerging Europe	I Accumulation	100%	0%
Schroder ISF Emerging Markets Debt Absolute Return	I Accumulation EUR Hedged	100%	0%
Schroder ISF Emerging Markets Equity Alpha	I Accumulation	100%	100%
Schroder ISF EURO High Yield	I Accumulation	100%	0%
Schroder ISF European Alpha Focus	I Accumulation	100%	19%

Notes to the financial statements

for the year ended 31 December 2018

8. Investments in subsidiaries (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	Holding in undertaking via share / unit class
Luxembourg			
Schroder ISF European Sustainable Equity	I Accumulation	100%	100%
Schroder ISF Global Credit Income	I Accumulation	100%	0%
Schroder ISF Global Credit Value	I Accumulation	94%	93%
Schroder ISF Global Disruption	-	100%	100%
Schroder ISF Global Diversified Growth	I Accumulation GBP Hedged	40%	1%
Schroder ISF Global Energy	I Accumulation	100%	0%
Schroder ISF Global Gold	I Accumulation	100%	1%
Schroder ISF Global Gold	I Accumulation EUR Hedged	99%	0%
Schroder ISF Global Multi-Asset Balanced	I Accumulation CHF Hedged	89%	0%
Schroder ISF Global Recovery	I Accumulation	31%	3%
Schroder ISF Global Target Return	I Accumulation	72%	37%
Schroder ISF Middle East	I Accumulation	100%	0%
Schroder ISF Multi-Asset PIR Italia	C Accumulation	90%	90%
Schroder ISF Multi-Asset Total Return	I Accumulation	85%	35%
Schroder ISF Multi-Asset Total Return	I Accumulation EUR Hedged	99%	2%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation	100%	4%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation EUR Hedged	73%	0%
Schroder ISF QEP Global Equity Market Neutral	I Accumulation GBP Hedged	100%	59%
Schroder ISF QEP Global Value Plus	I Accumulation	100%	3%
Schroder ISF Securitised Credit	I Accumulation	100%	1%
Schroder ISF Strategic Beta	I Accumulation	100%	3%
Schroder ISF Swiss Equity Opportunities	I Accumulation	100%	1%

(c) Registered offices of related undertakings arising from the Company's interests in structured entities. The registered offices for each of the entities listed on page 24 and 25 corresponds to the relevant country.

UK
1 London Wall Place, London, EC2Y 5AU, United Kingdom

Australia
Level 20, Angel Place, 123 Pitt Street, Sydney, NSW, 2000, Australia

Brazil
Schroder Best Ideas FIA and Schroder Fundo de Investimento Multimercado Low Vol:
Av. Presidente Wilson, n° 231, 11° andar, Rio de Janeiro, Brazil

Sicredi - FI Multimercado Elite Credito Privado LP:
Avenida Assis Brasil, 3940, Porto Alegre, RS, Brazil

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8. Investments in subsidiaries (continued)

(c) Registered offices of related undertakings arising from the Company's interests in structured entities. The registered offices for each of the entities listed on page 24 and 25 corresponds to the relevant country. (continued)

Cayman Islands
Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY11-1104, Cayman Islands

Japan
1-1 Chuo-ku, Saitama City, Saitama Shintoshin Godo Choushya 1st Building, Saitama Prefecture, 330-9716, Japan

Luxembourg
5 rue Höhenhof, L-1736 Senningerberg, Luxembourg

Interests in unconsolidated structured entities
The Company holds interests in structured entities through its ownership of units in investment funds managed and operated by third parties. These investments entitle the Company to investment returns.

The main risk the Company faces from interests in structured entities is capital losses arising from a decrease in the value of its investments. The following table summarises the carrying values recognised in the statement of financial position, which also represent the maximum exposure to loss, in respect of the Company's interests in unconsolidated structured entities:

	2018 £'000	2017 £'000
Financial assets (See note 7)	298,842	172,399
Cash equivalents	-	75,000
Total	**298,842**	**247,399**

9. Trade and other payables

Trade payables are recorded initially at fair value and subsequently at amortised cost.

Trade and other payables are all current. Trade and other payables include interest bearing loans from other Group companies. Interest applied to the loans is in line with current market rates. All other trade and other payables are non interest bearing. The carrying amount of interest and non interest bearing trade and other payables is at amortised cost approximates their fair value.

	2018 £'000	2017 £'000
Amounts owed to related parties (see note 15)	472,067	398,659
Accruals	64	47
	472,131	**398,706**

Amounts due to related parties include £470,522,000 (2017: £397,850,000) of interest bearing amounts.

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10. Financial liabilities

Financial liabilities are held at fair value through profit or loss and held for trading. Gains and losses on derivative contracts are recognised within 'net (losses) / gains on financial instruments and other income' in the income statement.

	2018 £'000	2017 £'000
Derivative contracts (see note 12)	**347**	**440**

Fair value measurements

The Company holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are based on the degree to which the fair value is observable and are defined in note 7.

		2018	
	Level 1 £'000	**Level 2 £'000**	**Total £'000**
Financial liabilities			
Derivative contracts	232	115	347
	232	**115**	**347**

		2017	
	Level 1 £'000	**Level 2 £'000**	**Total £'000**
Financial liabilities			
Derivative contracts	357	83	440
	357	**83**	**440**

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11. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 17%), reflecting the rate expected to be applicable at the time the net deferred tax liability is realised.

The movement on the deferred tax liability account is as shown below:

	2018 £'000	2017 £'000
At 1 January	119	31
Income statement charge	154	85
Income statement charge credit due to changes in tax rates	-	(1)
(Credit) / charge to statement of other comprehensive income	(2)	4
At 31 December	**271**	**119**

A deferred tax asset relating to realised and unrealised capital losses of £2,764,000 (2017: £1,330,000) 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.

12. Derivative contracts

Derivative contracts are included at fair value at the year end date within 'Financial assets' or 'Financial liabilities'. Fair value represents the amount at which a derivative could be exchanged in a transaction at the statement of financial position date between willing parties. All contracts held at year end are current.

Where derivatives are held for risk management purposes, the Company formally documents the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and 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 fair value of hedged items. The Company actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Company. This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk. By purchasing or selling derivative contracts, the Company is able to mitigate or eliminate such exposures. The principal risk the Company faces through such use of derivative contracts is one of credit risk only.

In relation to fair value hedges such as forward foreign currency contracts which meet the conditions for hedge accounting, any gain or loss from re-measuring 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. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Currency forwards represent commitments to sell or purchase foreign and domestic currency. 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.

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12. Derivative contracts (continued)

Futures contracts are standardised contracts to buy or sell specified items 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.

Interest rate swap contracts result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Company'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 Company assesses counterparties in accordance with its internal policies and procedures.

	Assets £'000	**Liabilities £'000**
2018		
Equity contracts	1,011	232
Forward foreign exchange contracts	1,237	115
	2,248	**347**

	Assets £'000	**Liabilities £'000**
2017		
Equity contracts	89	357
Forward foreign exchange contracts	693	83
	782	**440**

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market indices or foreign exchange rates 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.

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13. Financial instrument risk management

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 'Risk management and internal control' within the Governance section and in note 19 in the Schroders Report. 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. Except for the debt securities and cash and cash equivalents the Company's counterparties are predominately its related parties. 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. Intercompany and cash balances are monitored regularly and historically default levels have been nil. The Company does not have any receivables that are either past due or impaired.

Externally published credit ratings are indicators of the level of credit risk associated with a counterparty. A breakdown of the Company's relevant financial assets by credit rating as provided by credit agencies are set out below.

	Cash and cash equivalents		Debt securities at fair value	
	2018	2017	2018	2017
	%	%	%	%
Credit rating				
AA	91.3	-	-	-
AA-	8.5	4.9	-	-
A+	0.2	0.9	-	-
A	-	94.2	-	-
Non rated	-	-	-	100.0
At 31 December 2018	**100.0**	**100.0**	**-**	**100.0**

From 1 January 2018, expected credit losses are calculated in accordance with IFRS 9 on all the Company's financial assets that are measured at amortised cost and all debt instruments that are measured at fair value through other comprehensive income. The gross carrying values are adjusted to reflect these credit losses.
A three stage model is used for calculating expected credit losses which requires financial assets to be assessed as:
- Performing (stage 1) – Financial assets where there has been no significant increase in credit risk since original recognition; or
- Under-performing (stage 2) – Financial assets where there has been a significant increase in credit risk since initial recognition, but no default; or
- Non-performing (stage 3) – Financial assets that have defaulted.

For financial assets in stage 1, twelve month expected credit losses are calculated based on the credit losses that are expected to be incurred over the following twelve-month period. For financial assets in stage 2 and 3, expected credit losses are calculated based on the expected credit losses over the life of the instrument. The Company applies the simplified approach to calculate expected credit losses for trade and other receivables based on lifetime expected credit losses and no assessment is done of the different stages.

The Company's expected credit losses on cash and cash equivalents and trade and other receivables was immaterial.

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for the year ended 31 December 2018

13. Financial instrument risk management (continued)

Estimates and judgements – impairment of financial assets
The Company has internal processes designed to assess the credit risk profile of its financial instruments, and to determine the relevant stage for calculating the expected credit losses. These processes include consideration of internal, external, historic and forward-looking information about specific loans and securities as well as market data.

For financial assets held with rated counterparties (such as cash and cash equivalents, loans and advances to banks and debt securities), the Company calculates expected credit losses based on default information published by rating agencies and considers any known factors not yet reflected in this information.

For trade and other receivables, the Company has established a provision matrix that incorporates the Company's historical credit loss experience, counterparty groupings and whether a receivable is overdue or not.

Factors considered in determining whether a default has taken place include how many days past the due date a payment is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a counterparty's ability to pay. For loans and advances to banks and debt securities, a default usually arises when contractual payments are 1 day overdue.

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 Company's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain the solvency. The Company holds sufficient liquid funds to cover their normal course of business. Outside the normal course of business the Company can request additional capital through intergroup loans to maintain sufficient liquidity. The Company has investment capital which includes investments in fixed income portfolios. Liquidity in these portfolios is monitored by the Company on a regular basis.

Market risk
(a) Interest rate risk:
Interest rate risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

Interest rate risk is limited. Assets and liabilities attracting interest rates are cash balances and intercompany loans, both of which are at floating rate, therefore outright interest rate risks arises mainly from the decision to allow a mismatch between the cash flows.

At 31 December 2018, if Bank of England interest rates had been 100 basis points higher or 50 basis points lower with all other variables held constant, post-tax loss for the year would have been £3,691,000 higher / £1,845,000 lower, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

At 31 December 2017, if Bank of England interest rates had been 50 basis points higher or 50 basis points lower with all other variables held constant, post-tax loss for the year would have been £1,285,000 higher/lower, mainly as a result of higher/lower interest income on interest bearing intercompany loan balances. Other components of equity would have been unaffected.

The underlying assumption made in the model used to calculate the effect on post-tax profits was that the fair values of assets and liabilities will not be affected by a change in interest rates.

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for the year ended 31 December 2018

13. Financial instrument risk management (continued)

Market risk

(b) 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.

Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency.

The Company is exposed to foreign exchange risk arising from currency exposures to US dollars and Euros.

The Company's investment capital is hedged effectively.

As at 31 December 2018, if the US Dollar had weakened 20% / strengthened by 15% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £562,000 / decrease by £421,000.

As at 31 December 2017, if the US Dollar had weakened 8% / strengthened by 10% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £119,000 / decrease by £148,000.

As at 31 December 2018, if the Euro had weakened 10% / strengthened by 7% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £888,000 / decrease by £622,000.

As at 31 December 2017, if the Euro had weakened 6% / strengthened by 10% against the sterling, with all other variables held constant, the Company's loss for the year would increase by £3,000 / decrease by £5,000.

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for the year ended 31 December 2018

13. Financial instrument risk management (continued)

Market risk

(c) Pricing risk:

Pricing risk is the market risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

At 31 December 2018, if market prices had been 20% higher / lower with all other variables held constant (2017: same), the effect of post-tax profit / loss would increase / decrease by £45,780,000 (2017 : £24,514,000), principally as a result of fair value gains on the Company's fair value investments.

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits and other components of equity:

- Changes in the FTSE All Share Index correlate to changes in the Company's equity and pooled investment vehicles without market hedges, which includes those classified as level 3.
- The market risk on the Company's seed capital that is hedged, is assumed to have no correlation to the FTSE All Share Index.

(d) Capital management

The Company's capital that is not required for the working capital requirements of the business is invested in the following areas:

- Seed capital;
- Equities;
- Debt securities;
- Co-investments; and
- Private equity.

The investments in the above are primarily to support the business.

14. Share capital

	2018 Number	2017 Number	2018 £'000	2017 £'000
Issued and fully paid:				
Ordinary shares of £1 each	32,000,000	32,000,000	32,000	32,000

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for the year ended 31 December 2018

15. Related party transactions

Loans to and borrowings from related parties

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised.

Transactions between the Company and related parties are disclosed below.

2018	Expenses £'000	Finance charges £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Subsidiaries of the Company	10	-	11	-
Other related companies within the Schroders Group	(473)	(8,555)	1	(472,067)
	(463)	**(8,555)**	**12**	**(472,067)**

2017	Expenses £'000	Finance charges £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Subsidiaries of the Company	(10)	-	-	(10)
Other related companies within the Schroders Group	(991)	(7,138)	-	(398,649)
	(1,001)	**(7,138)**	**-**	**(398,659)**

Transactions with Directors are described in note 3 and the ultimate and immediate parent company is disclosed in note 16.

Information about subsidiaries is provided in note 8.

At 31 December 2018 the Company held financial assets with a fair value of £246,420,000 (2017: £92,084,000) in funds that were deemed to be subsidiaries of Schroders plc, by nature of the ownership interest by this Company and the powers and rights held by other Group companies. The Company recognised realised losses from related parties of £173,000 (2017: £nil) within 'Net (losses) / gains on financial instruments and other income'.

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

Notes to the financial statements

for the year ended 31 December 2018

16. Ultimate and immediate parent company

The Company's immediate parent company is Schroder Financial Holdings Limited (Incorporated in England and Wales), whose ultimate parent company and ultimate controlling party is Schroders plc (incorporated in England and Wales).

The results of the Company are consolidated in the Annual Report and Accounts of Schroders plc, copies of which can be obtained from www.schroders.com.