Schroders

Annual Report and Accounts 2020

Schroder Real Estate Investment Management Limited

Year Ended 31 December 2020

Registered Number: 01188240

Contents

Schroders

Officers and professional advisers

Directors

Jonathan Harris
Melinda Knatchbull
Ravinder Lamba
Nicholas Montgomery
Georg Wunderlin

Company Secretary

Schroder Corporate Services Limited

Registered office

1 London Wall Place
London, England
EC2Y 5AU

Independent auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic report

The Directors present their Strategic report on Schroder Real Estate Investment Management Limited (the 'Company') for the year ended 31 December 2020.

Results and review of the business

The profit for the year, after tax, was £59,000 (2019: £8,379,000).

The principal activities of the Company are investment management and advisory services. The Company is authorised and regulated by the Financial Conduct Authority.

The Company's investment and operating principles are expected to remain unchanged in 2021.

Notwithstanding the impact of the market conditions highlighted below, the Directors consider the results and the Company's financial position at 31 December 2020 to be satisfactory.

Covid-19 had an impact on nearly every aspect of our lives with the pandemic impacting investor sentiment and leading to market volatility. The response of the Group to the pandemic demonstrated the resilience of its employees, the strength of the infrastructure supporting its business processes and its business model. There was no significant impact on business operations despite 99% of staff working remotely. The effects of the pandemic are likely to be felt for a number of years and the Company, as part of the Group, is well placed to weather those challenges.

The UK left the European Union (EU) on 31 January 2020 and entered a 'transition period' while the UK Government negotiated its future relationship with the EU. On 24 December 2020, both parties announced that they had reached consensus on a free trade agreement, the UK-EU Trade and Cooperation Agreement ('Agreement'), with its terms taking effect immediately after the transition period concluded on 31 December 2020. As widely anticipated, the agreement does not make provision for financial services firms in the UK to continue to access the EU single market and, as a result, those firms lost their passporting rights.

The Group was well positioned for the loss of passporting rights for financial services. The Group's diversified business model and significant presence in the EU means that it is well placed to respond to any challenges arising without making significant changes to its operating models. The Group continues to closely monitor future negotiations and regulatory developments with respect to financial services including any frameworks for regulatory cooperation between the UK and the EU that might affect its business or clients. The Company is well placed to weather these challenges and adapt to ongoing changes in the political, economic and regulatory environment.

Directors' duties – compliance with s172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

To discharge their section 172 duties the directors had regard to the factors set out above in making the principal decisions taken by the Company.

Strategic report (continued)

Directors' duties - compliance with s172 of the Companies Act 2006 (continued)

During the year, the Board elected not to approve the payment of a dividend by the Company to its parent. The Directors considered the long term interests of the Company and its stakeholders and felt that this decision, bearing in mind the uncertainty surrounding the impact of Covid-19 on the real estate industry, was in the best interests of its stakeholders.

Due to the structure of the Group, stakeholder engagement also took place using Group resources, in line with agreed delegations. For details of the engagement that takes place with the Company's stakeholders at Group level, please refer to the Schroders plc annual report and accounts for the year ended 31 December 2020 ('the Schroders Report'). The Schroders Report does not form part of this report.

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 Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in "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 2020. 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:

Ria Vavakis, authorised signatory for
Schroder Corporate Services Limited
Company Secretary
20 April 2021

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020. 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 the Directors did not declare a dividend in respect of the year ended 31 December 2019.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020.

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 risks 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 14 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 12 months from the date the Annual Report and Accounts are 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 throughout the year, except where noted below, are listed on page 1. Between 1 January 2020 and 20 April 2021 the following changes have taken place:

Name	Appointed	Resigned
Jonathan Harris	14 July 2020	
Ravinder Lamba	30 July 2020	
Duncan Owen		31 December 2020
Georg Wunderlin	14 February 2020	

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 (2019: none).

Directors' report (continued)

Independent auditors and disclosure of information to independent auditors

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, Ernst and Young LLP (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.

Streamlined Energy and Carbon Reporting (SECR)

The Schroders Report includes the energy and carbon information for the entire Group, including the Company as a subsidiary undertaking under the SECR framework.

Statement of corporate governance arrangements

As a subsidiary undertaking, the Company applies the UK Corporate Governance Code where applicable to support the overall compliance of Schroders plc with that code.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the 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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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:

Ria Vavakis, authorised signatory for
Schroder Corporate Services Limited
Company Secretary
20 April 2021

Registered Office
1 London Wall Place
London, England, EC2Y 5AU
Registered in England and Wales No: 01188240

Schroders

Independent auditor's report to the member of Schroder Real Estate Investment Management Limited

Opinion

We have audited the financial statements of Schroder Real Estate Investment Management Limited (the 'Company') for the year ended 31 December 2020 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 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of 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. 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 Financial Reporting Council'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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. To evaluate the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting, we have:

- through enquiry of management and inspection of documentation, understood the process for management's assessment of going concern for the Schroders plc group, which incorporates the activities of the Company including considerations of capital, liquidity and profitability, and assessed the appropriateness of the conclusions drawn;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed minutes of meetings of the Board, and made enquiries as to the impact of COVID-19 on the business; and
- assessed the appropriateness of the going concern disclosures by assessing their consistency with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for twelve months from the date the Annual Report and Accounts is signed.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent auditor's report to the member of Schroder Real Estate Investment Management Limited (continued)

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 contained with the Annual Report and Accounts.

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.

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 course of 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 themselves. 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.

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 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.

Independent auditor's report to the member of Schroder Real Estate Investment Management Limited (continued)

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, 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.

Independent auditor's report to the member of Schroder Real Estate Investment Management Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to International Accounting Standards adopted in conformity with the requirements of the Companies Act 2006 and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Financial Conduct Authority (FCA) rules and regulations.
- We understood how Schroder Real Estate Investment Management Limited is complying with those frameworks by making enquiries of management. We corroborated our understanding through our review of board meeting minutes and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, including in a remote-working environment; and how management monitors these controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; and enquiries of management.

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.

Independent auditor's report to the member of Schroder Real Estate Investment Management Limited (continued)

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

James Beszant (Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London

April 2020

Income statement

for the year ended 31 December 2020

	Notes	**2020 £'000**	2019 £'000
Revenue	2	43,148	56,161
Cost of sales	3	(7,487)	(8,578)
Net operating revenue		**35,661**	47,583
Net gains on financial instruments and other income	4	359	60
Net income		**36,020**	47,643
Operating expenses	5	(35,856)	(37,235)
Profit before income tax		**164**	10,408
Income tax expense	6	(105)	(2,029)
Profit after tax		**59**	8,379

Statement of comprehensive income

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Profit after tax for the year	59	8,379
Total comprehensive income for the year net of tax	**59**	8,379

Statement of financial position

as at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Cash and cash equivalents	8	201	902
Trade and other receivables	9	46,736	42,429
Deferred tax	12	1,278	1,088
Total assets		**48,215**	44,419
Liabilities			
Trade and other payables	13	28,456	23,077
Current tax		280	2,024
Total liabilities		**28,736**	25,101
Net assets		**19,479**	19,318
Total equity		**19,479**	19,318

The financial statements on pages 11 to 41 were approved by the Board of Directors on 20 April 2021 and were signed on its behalf by:

Ravinder Lamba
Director

Registered Number **01188240**

Statement of changes in equity

for the year ended 31 December 2020

	Share capital[1] £'000	**Retained earnings[2] £'000**	**Total £'000**
At 1 January 2020	7,900	11,418	19,318
Profit and total comprehensive income for the year net of tax	-	59	59
Tax credit on items taken directly to equity	-	102	102
Transactions with shareholders	**-**	**102**	**102**
At 31 December 2020	**7,900**	**11,579**	**19,479**

for the year ended 31 December 2019

	Share capital[1] £'000	Retained earnings[2] £'000	Total £'000
At 1 January 2019	7,900	11,645	19,545
Profit and total comprehensive income for the year net of tax	-	8,379	8,379
Tax credit on items taken directly to equity	-	94	94
Dividends	-	(8,700)	(8,700)
Transactions with shareholders	-	(8,606)	(8,606)
At 31 December 2019	7,900	11,418	19,318

[1] Share capital represents issued and fully paid ordinary shares at a par value of £1 each.

[2] Retained earnings represents accumulated comprehensive income for the year and prior periods together with transactions with shareholders.

Cash flow statement

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Profit before income tax		164	10,408
Adjustments for statement of financial position movements:			
Increase in trade and other receivables		(4,307)	(5,115)
Increase in trade and other payables		5,379	5,659
United Kingdom corporation tax paid		(1,937)	(2,028)
Adjustments for which cash effects are disclosed elsewhere:			
Interest received		(69)	(214)
Interest paid		6	5
Net cash (used in)/from operating activities		**(764)**	8,715
Investing activities			
Interest received		69	214
Interest paid		(6)	(5)
Net cash from investing activities		**63**	209
Financing activities			
Dividends paid		-	(8,700)
Net cash from financing activities		**-**	(8,700)
Net (decrease)/increase in cash and cash equivalents		**(701)**	**224**
Opening cash and cash equivalents		902	678
Net (decrease)/increase in cash and cash equivalents		(701)	224
Closing cash and cash equivalents	8	**201**	902

Notes to the financial statements

for the year ended 31 December 2020

1. Presentation of financial statements

Financial information for the year ended 31 December 2020 is presented in accordance with International Accounting Standard (IAS) 1 Presentation of Financial Statements.

At 31 December 2020, the Company was a wholly owned subsidiary of Schroders Plc, a company incorporated in England and Wales that publishes group consolidated accounts. In accordance with Section 400 of the Companies Act 2006, the Company is therefore not required to produce consolidated accounts. 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.

Basis of preparation

The financial statements are prepared in accordance with International Accounting Standards in conformity with the requirements of Companies Act 2006.

The financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention.

The Company's principal accounting policies have been consistently applied. The preparation of financial statements in conformity with International Accounting Standards 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. 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 below.

Future accounting developments

The Company did not implement the requirements of Standards or Interpretations that were in issue but were not required to be adopted by the Company at the year end date. No other Standards or Interpretations have been issued that are expected to have an impact on the Company's financial statements.

The Company has complied with regulation 2 of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 by publishing the information in relation to the year ended 31 December 2019 on the Schroders Group Website before 31 December 2020. This is available at https://www.schroders.com/en/about-us/corporate-responsibility/our-economic-contribution/. The Company will publish the information in relation to the year ended 31 December 2020 on the Schroders Group Website before 31 December 2021. This will be available at https://www.schroders.com/en/about-us/corporate-responsibility/our-economic-contribution/.

Estimates and judgements

The preparation of the financial statements in conformity with International Accounting Standards 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 will seldom equal the related actual results. There are no estimates or judgements assumptions that have a significant effect on the carrying amounts of assets and liabilities.

Notes to the financial statements

for the year ended 31 December 2020

2. Revenue

The Company's primary source of revenue is fee income from investment management and advisory activities. The fees are generally based on an agreed percentage of the valuation of the assets under management and are recognised as the service is provided and it is probable that the fee will be received.

Other fees which largely comprise transaction fees are generally based on an agreed percentage of the asset purchase or sale price.

Performance fees are earned from some clients 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 can be made and it is almost certain that it will be received.

	2020 **£'000**	2019 £'000
Management fees	42,059	53,497
Other fees	1,064	2,664
Performance fees	25	-
Revenue	**43,148**	56,161

Notes to the financial statements

for the year ended 31 December 2020

3. Cost of sales

Cost of sales principally comprises investment management fees and commissions payable to other Group entities and third parties recognised over the period for which the service is provided.

4. Net gains on financial instruments and other income

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the year-end date and transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction.

Interest comprises amounts due on loans to other companies within the Schroders Group and temporary surpluses or deficits in the Company's cash accounts held with banks. Interest receivable and payable is recognised using the effective interest method.

Net gains taken to the income statement in respect of financial assets and liabilities are:

	2020 **£'000**	2019 £'000
Net gains/(losses) on foreign exchange	296	(149)
Finance income	69	214
Finance charges	(6)	(5)
Net gains on financial instruments and other income	**359**	60

Notes to the financial statements

for the year ended 31 December 2020

5. Operating expenses

Operating expenses are recognised on an accruals basis as services are provided. Included within total operating expenses are recharges from other Group companies in relation to employee benefit expenses, including employee share-based payments and deferred cash awards. Deferred cash awards take the form of notional investments in funds operated by the Schroders plc Group and the liability is recorded at fair value.

The deferred cash awards are held as a financial liability and comprise cash settled share based payments and deferred awards in the form of interests in funds. These awards are charged to 'Operating expenses' within the income statement over the performance period and the vesting period of the awards and are recorded based on the proportion of time elapsed and the fair value of the award. Awards that lapse are credited to the income statement, again within 'Operating expenses', in the year which they lapse. The accounting policy in respect of employee share-based payments is set out in note 17.

Pension costs are determined in accordance with IAS 19 requirements and are explained in note 16.

Operating expenses include:

	2020	2019
	£'000	£'000
Salaries, wages and other remuneration	15,753	13,541
Social security costs	2,040	1,977
Other pension costs (see note 16)	851	796
Staff related expense	**18,644**	16,314
Fees payable for the audit of the Company	49	20
Fees payable for other assurance services	6	6
Audit and non-audit fees	**55**	26
Other operating expenses	17,157	20,895
Operating expenses	**35,856**	37,235

All staff related expenses of the Company relate to individuals who are substantially engaged in the Company's business but have contracts of service with and receive their emoluments from another Group company. These are recharged in their entirety to the Company.

Notes to the financial statements

for the year ended 31 December 2020

5. Operating expenses (continued)

Directors' emoluments

The amounts set out below are in respect of 5 (2019: 4) Directors whose emoluments were charged either in part or in full to the Company during the year. The directors received no remuneration in respect of their services as Directors, but received the following remuneration in connection with the management of the affairs of the Company. The emoluments of 1 (2019: 0) Director 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. The Director therefore receives no incremental emoluments for their services to the Company.

	2020	2019
	£'000	£'000
Aggregate emoluments	1,863	1,768
Company pension contributions to the defined contribution scheme	15	6
	1,878	1,774

In addition to the emoluments detailed, deferred amounts conditionally receivable by current Directors were £446,000 (2019: £512,000).

Retirement benefits have accrued to no (2019: none) Directors under a defined benefit scheme and to 3 (2019: 2) Directors under a defined contribution pension scheme.

During the year, 3 (2019: 4) Directors became entitled to shares under the Group's Equity Compensation Plan, 3 (2019: 4) Directors became entitled to shares under the Group's Deferred Award Plan and no (2019: 1) Directors became entitled to shares under the Group's Equity Incentive Plan.

Total compensation for loss of office payable to Directors was £532,000 (2019: £nil).

In respect of the highest paid Director, the aggregate emoluments and the amounts (excluding shares) received under deferred incentive plans were £932,000 (2019: £1,130,000). In 2020 the Director became entitled to shares under the Group's Equity Compensation Plan (2019: did become entitled) and did become entitled to shares under the Group's Deferred Award Plan (2019: did become entitled). The Director did not (2019: did not) become entitled to shares under the Group's Equity Incentive Plan. The contribution to a defined contribution scheme was £nil (2019: £nil) and total compensation for loss of office was £532,000 (2019: £nil).

Notes to the financial statements

for the year ended 31 December 2020

6. Income tax expense

The Company is based in the UK and pays taxes according to the rates applicable in the jurisdictions in which it operates. Most taxes are recorded in the income statement (see part (a) of this note below) and relate to profits earned in the reporting period (current income tax) but there are also amounts relating to timing differences between the accounting recognition of profits and the tax recognition (deferred income tax). Deferred income tax is explained in note 12. Some current and deferred income tax, mainly relating to changes in the intrinsic value of employee share awards, is recorded directly in equity (see part (b)).

(a) Analysis of income tax expense in the year

	2020 £'000	2019 £'000
Current tax:		
Current tax expense for the year	256	2,043
Adjustments in respect of prior periods	41	213
Total current tax expense for the year	**297**	2,256
Deferred tax:		
Origination and reversal of temporary timing differences	(165)	(85)
Adjustments in respect of prior periods	76	(215)
Effect of changes in UK corporation tax rate	(103)	73
Total tax expense for the year	**105**	2,029

(b) Analysis of credit reported in equity

	2020 £'000	2019 £'000
Current income tax on Deferred Award Plan and share option awards	(104)	(25)
Deferred income tax on Deferred Award Plan and share option awards - current year	9	(75)
Deferred tax effect of changes in UK corporation tax rate	(7)	6
Tax credit reported in equity	**(102)**	(94)

Notes to the financial statements

for the year ended 31 December 2020

6. Income tax expense (continued)

(c) Factors affecting income tax expense for the year

The UK standard rate of corporation tax is 19 per cent. (2019: 19 per cent.). The tax expense for the year is higher (2019: higher) than the UK standard rate of corporation tax for the period of 19 per cent. The differences are explained below:

	2020 £'000	2019 £'000
Profit before tax	164	10,408
Profit before tax multiplied by corporate tax at the UK standard rate of 19% (2019: 19%)	31	1,978
Effects of:		
Non-taxable income net of disallowable expenses	60	(20)
Adjustments in respect of prior periods	117	(2)
Deferred tax adjustments in respect of changes in UK tax rates	(103)	73
Total income tax expense for the year	**105**	2,029

7. Dividends payable

Final dividends payable are recognised when the dividend is approved by the shareholder. Interim dividends payable are recognised when the dividend is paid.

	2020		2019	
	£'000	**Pence per share**	£'000	Pence per share
Interim dividend paid	-	-	8,700	110

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8. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts where such facilities form an integral part of the Company's cash management.

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

	2020	2019
	£'000	£'000
Cash at bank and in hand	**201**	902

As part of the Group's process to manage surplus cash and investment returns effectively, surplus cash of £26,893,000 (2019: £21,731,000) was swept to a central bank account held by Schroder Financial Services Limited, a related party. These balances are shown in note 9 trade and other receivables within amounts owed by related parties.

9. Trade and other receivables

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

Apart from prepayments, this represents amounts the Company is due to receive from third parties, including related parties in the normal course of business. These receivables are derecognised on receipt of cash or on recognition of a provision if the receivable is in doubt. Trade and other receivables are stated after the deduction of provisions for bad and doubtful debts. Prepayments arise where the Company pays cash in advance for services not yet received. As the service is provided, the prepayment is recorded in the income statement as an operating expense.

	2020	2019
	£'000	£'000
Amounts owed by related parties (see note 18)	39,074	30,917
Accrued income	3,540	6,368
Fee debtors	1,331	3,022
Other debtors	2,527	1,887
Prepayments	264	235
	46,736	42,429

Trade and other receivables are all current.

The carrying amount of interest and non-interest bearing trade and other receivables approximate their fair value.

Gross carrying value for trade and other receivables is £46,776,000 (1 January 2020: £42,463,000) and expected credit losses are £37,400 (1 January 2020: £34,000). Expected credit losses as a percentage of gross carrying value is 0.08 per cent. (1 January 2020: 0.08 per cent. nil). Note 14 sets out the basis of the expected credit loss calculation.

Recoverability of the Company's fee debtors is set out in note 14 (Financial risk management).

Notes to the financial statements

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10. Financial assets

The Company has an investment of:

£1 (2019: £1) in Residential Land Development (GP) LLP (the Partnership), a limited liability partnership registered in England and Wales. The Partnership is held at cost less, where appropriate, provisions for impairment. The investment represents a third of Partnership's members' capital.

£1 (2019: £1) in Gatwick Hotel Feeder GP LLP (the Gatwick Partnership), a limited liability partnership registered in England and Wales. The Gatwick Partnership is held at cost less, where appropriate, provisions for impairment. The investment represents half of the Gatwick Partnership's members' capital.

The Company is also a Member of Social Supported Housing GP LLP (the GP Partnership), a limited liability partnership registered in England and Wales. The Company did not make any capital contributions to the GP Partnership.

The Directors believe that the carrying value of the investments is supported by the underlying assets.

11. Interests in unconsolidated structured entities

The Company has interests in structured entities as a result of its principal activity, the management of assets on behalf of its clients. Assets under management (AUM), excluding segregated client portfolios, are managed within structured entities, typically unitised vehicles which entitle unitholders to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units (or other similar ownership entitlements in the entities) by investors. Most of the Company's funds are also permitted to raise finance through loans from banks and other financial institutions.

The Company earns a management fee from its structured entities typically based on a percentage of the entity's asset value. The business activity of all structured entities is the management of assets in order to generate investment returns from capital appreciation and/or investment income.

The main risk the Company faces from its interests in unconsolidated structured entities is the loss of fee income as a result of the withdrawal of funds by clients or a reduction in the net asset value of assets managed through market movements. Redemptions from funds are largely dependant on market sentiment and asset performance.

The amount of AUM relating to unconsolidated structured entities is £1,368 million (2019: £1,011 million).

The following table summarises the carrying values, which also represent the Company's maximum exposure to loss, recognised in the statement of financial position of the Company's interests in unconsolidated structured entities:

	2020	2019
	£'000	£'000
Fee debtors*	1,328	2,838
Accrued income*	1,842	5,504
	3,170	8,342

* Included within trade and other receivables.

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for the year ended 31 December 2020

12. Deferred tax

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences between the tax bases of assets and liabilities at the balance sheet date and their carrying amounts for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for. 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 balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax relating to items recognised directly in the statement of recognised income and expense is recognised in the statement of recognised income and expense and not the income statement.

On 11 March 2020 it was announced (and enacted on 22 July 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The UK deferred tax balances have been calculated with reference to the rate of 19%. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent. (2019: 17 per cent.) reflecting the rate expected to be applicable at the time the net deferred tax asset is realised.
The movement on the deferred income tax account is as shown below:

	2020 **£'000**	2019 £'000
At 1 January	1,088	792
Income statement credit	192	227
(Charge)/credit taken to equity	(9)	75
Effect of changes in UK tax rates - equity credit/(expense)	7	(6)
At 31 December	**1,278**	1,088

Deferred tax assets	**Accelerated capital allowances £'000**	**Share options and award schemes £'000**	**Total £'000**
At 1 January 2020	2	1,086	1,088
Credited to income statement	-	192	192
Charged to equity	-	(2)	(2)
At 31 December 2020	**2**	**1,276**	**1,278**
At 1 January 2019	2	790	792
Credited to income statement	-	227	227
Credited to equity	-	69	69
At 31 December 2019	2	1,086	1,088

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13. Trade and other payables

Trade payables, other than deferred cash awards, are recorded initially at fair value and subsequently at amortised cost. Deferred cash awards settled in cash are recorded at fair value, with remeasurement at each year-end date and settlement date.

	2020			2019		
	Non-current £'000	**Current £'000**	**Total £'000**	Non-current £'000	Current £'000	Total £'000
Financial liabilities held at amortised cost:						
Accruals	2,678	8,223	10,901	3,112	6,421	9,533
Amounts owed to related parties (see note 18)	-	16,681	16,681	-	11,658	11,658
Trade creditors	-	874	874	-	1,886	1,886
	2,678	**25,778**	**28,456**	3,112	19,965	23,077

The carrying amount of the financial liabilities at amortised cost approximates their fair value.

The Company's financial liabilities held at amortised cost are expected to mature in the following periods:

	2020 £'000	2019 £'000
Less than a year	25,778	19,965
1 - 2 years	1,506	849
2 - 3 years	982	1,203
3 - 4 years	190	1,060
	2,678	3,112
	28,456	23,077

Notes to the financial statements

for the year ended 31 December 2020

14. Financial 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 the Business review section and in the Schroders Report. Sensitivities are measured against market risk movements which the Group believes could reasonably occur within the next calendar year.

The Company's specific risk exposures are explained below.

Credit risk

Credit risk is the risk that the Company's counterparty to a financial instrument will cause the Company financial loss by failing to discharge an obligation.

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 related parties and therefore there is no credit risk exposure outside the Group on these balances. Intercompany and cash balances are monitored regularly and historically, default levels have been nil. The Company does not have any receivables that are past due or impaired.

Expected credit losses are calculated in accordance with IFRS 9 on all the Company's financial assets that are measured at amortised cost. 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.

Notes to the financial statements

for the year ended 31 December 2020

14. Financial risk management (continued)

Credit risk (continued)

Fee debtors are monitored regularly. Historically, default levels have been insignificant, and, unless a client has withdrawn funds, there is an ongoing relationship between the Company and the client. Although the Company is usually managing client cash representing a large multiple of the amount owed to the Company by the client, the Company does not hold any of the assets it invests on behalf of its clients as collateral.

The Company's related party receivables and fee debtors that are past due but are not considered to be impaired as at 31 December are presented below.

	2020	2019
	£'000	£'000
Older than 30 days not older than 45 days	1.760	2,524
Older than 45 days not older than 60 days	1,182	1,739
Older than 60 days not older than 90 days	148	46
Older than 90 days not older than 120 days	151	15
Older than 120 days not older than 180 days	161	15
Older than 180 days	17	-
	3,419	4,339

The Company's cash and cash equivalents are invested primarily in current accounts and on deposit with A+ rated UK banks (2019: A+ rated).

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.

Notes to the financial statements

for the year ended 31 December 2020

14. Financial risk management (continued)

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 normal operating requirements. Outside the normal course of business the Company can request to borrow through intra-Group loans to maintain sufficient liquidity. Liquidity in the Group's capital overall (and for each entity) is monitored on a regular basis.

Interest rate risk

Interest rate risk is the market risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Company has interest bearing assets and liabilities which comprises of cash and Group loan balances. The Company's cash and Group loan balances are monitored by the Group Treasury function.

At 31 December 2020, if Bank of England interest rates had been 15 basis points higher or 35 basis points lower (31 December 2019: 75 basis points higher/50 basis points lower) with all other variables held constant, it has been estimated that the post-tax profit for the year would have been £33,000 higher/£77,000 lower (2019: it has been estimated that the post-tax profit for the year would have been £137,000 higher/£92,000 lower), mainly as a result of higher/lower interest income on intercompany loans and cash 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 is that the fair values of assets and liabilities will not be affected by a change in interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's policy in relation to revenue and expenditure currency exposure is not to hedge as this is considered part of the business.

The Company has assets and liabilities denominated in US dollars. At 31 December 2020, if the US dollar had strengthened by 10 per cent./weakened by 10 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would decrease/increase by £1,769/£1,447. At 31 December 2019, if the US dollar strengthened by 10 per cent./weakened by 10 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would decrease/increase by £8,214/£10,040.

The Company has assets and liabilities denominated in euros. At 31 December 2020, if the euro had strengthened by 8 per cent./weakened by 8 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase/decrease by £386,070/£328,874. At 31 December 2019, if the euro had strengthened by 8 per cent./weakened by 8 per cent. against sterling with all other variables held constant, it has been estimated that the post-tax profit for the year would increase/decrease by £120,443/£102,600.

Notes to the financial statements

for the year ended 31 December 2020

14. Financial risk management (continued)

Pricing risk

Pricing risk is the risk that future cash flows will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. The Company's fee income is principally determined on basis points of the fair value of assets under management. This risk cannot be easily mitigated but is addressed to some extent by on-going net sales.

Capital management

The Company's capital which consists of asset management capital has been classified as operating capital. Operating capital is the capital required to meet the Company's regulatory and working capital requirements. The Financial Conduct Authority (FCA) oversees the activities of the Company and imposes minimum capital requirements. The policy of the Company is to hold sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. Where this is surplus to immediate working capital requirements it is managed by the Group Treasury function. The Group's Capital Committee regularly reviews this.

The Company is authorised and regulated by the FCA. Its last submitted capital resources as at 31 December 2020 totalled £10.8 million (2019: £11.4 million) and the minimum capital requirement was £6.9 million (2019: £5.4 million).

The Company has complied at all times with all of the externally imposed regulatory capital requirements.

15. Share capital

Share capital represents the number of issued ordinary shares multiplied by their par value of £1 each.

Issued and fully paid:	**2020 Number**	2019 Number	**2020 £'000**	2019 £'000
At 1 January and 31 December	**7,900,000**	7,900,000	**7,900**	7,900

Notes to the financial statements

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16. Retirement benefit obligations

The Company makes contributions on behalf of its staff to the Schroders Retirement Benefits Scheme, a Group scheme (the Scheme) which is administered by a Trustee company, Schroder Pension Trustee Limited. It is a funded scheme comprising a defined benefit (DB) and a defined contribution (DC) section; all current employees are members of the DC section.

Pension contributions are charged as 'Operating expenses' to the income statement in the accounting period in which they arise.

The charge for retirement benefit costs is as follows:

	2020	2019
	£'000	£'000
Pension costs - defined contribution plans	**851**	796

The following disclosures relate to the Group Scheme as a whole and are not specific to this Company's contribution to the Scheme.

(i) Profile of the Scheme

The Scheme is administered by a trustee company, Schroder Pension Trustee Limited (the Trustee). The board of the Trustee 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 2020, there were no active members in the DB section (2019: nil) and 2,159 active members in the DC section (2019: 2,127). The weighted average duration of the Scheme's DB obligation is 19 years (2019: 18 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2020	2019
Number of deferred members	1,199	1,251
Total deferred pensions (at date of leaving Scheme)	£8.2m per annum	£9.4m per annum
Average age (deferred)	52	53
Number of pensioners	937	885
Average age (pensioners)	70	70
Total pensions in payment	£20.8m per annum	£20.4m per annum

Notes to the financial statements

for the year ended 31 December 2020

16. Retirement benefit obligations (continued)

(ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required. The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

(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 an asset-liability matching policy that aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme.

The most significant risks to which the Scheme exposes the Group are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will reduce the surplus or may create a deficit. The Group manages this risk by holding 71% (2019: 64%) of Scheme assets in a liability matching portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but that 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.

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16. Retirement benefit obligations (continued)

(iii) Risks of the Scheme (continued)

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 liability matching portfolio, which comprises gilts, corporate bonds and other LDI instruments. The liability matching investments have 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 liability matching 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 liability matching portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2020, the liability matching portfolio was designed to mitigate 83% (2019: 83%) 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. 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 liability matching portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2020, the liability matching portfolio was designed to mitigate 83% (2019: 83%) 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.

Notes to the financial statements

for the year ended 31 December 2020

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2020

The principal financial assumptions used for the Scheme are:

	2020	2019
	%	%
Discount rate	1.4	2.1
RPI Inflation rate	2.8	3.1
CPI inflation rate	2.2	2.2
Future pension increases (for benefits earned before 13 August 2007)	2.7	3.0
Future pension increases (for benefits earned after 13 August 2007)	2.0	2.2
Average number of years a current pensioner is expected to live beyond age 60:		
Men	28	28
Women	29	29
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	29	29
Women	30	30

Net interest income is determined by applying the discount 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 is 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.

Estimates and judgements

The Group estimates the carrying value of the Scheme by applying judgement to determine the assumptions as set out on page 34 to calculate the valuation of the pension obligation using member data and applying the Scheme rules. The Scheme assets are mainly quoted in an active market. 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% (2019: 1.0%) per annum. An additional adjustment, an "A parameter" set to 0.25% (2019: 0.5%) per annum, allows for the typically higher rate of mortality improvement among members of the Scheme compared to general population statistics. The latest base mortality tables have been adopted with no scaling

(2019: previously latest available base tables scaled back by 2.5% for men and 7.5% for women) following a scheme specific review of the membership data.

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 2020.

Notes to the financial statements

for the year ended 31 December 2020

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2020

The sensitivity of the Scheme pension liabilities to changes in assumptions are:

		2020	
		Estimated (increase)/ reduction in pension liabilities	**Estimated (increase)/ reduction in pension liabilities**
Assumption	**Assumption change**	**£m**	**%**
Discount rate	Increase by 0.5% per annum	78.1	8.6
Discount rate	Decrease by 0.5% per annum	(87.7)	(9.6)
Expected rate of pension increases	Increase by 0.5% per annum	(80.7)	(8.9)
Expected rate of pension increases	Decrease by 0.5% per annum	62.3	6.9
Life expectancy	Increase by one year	(45.4)	(5.0)
Life expectancy	Decrease by one year	44.6	4.9

		2019	
		Estimated (increase)/ reduction in pension liabilities	Estimated (increase)/ reduction in pension liabilities
Assumption	Assumption change	£m	%
Discount rate	Increase by 0.5% per annum	71.7	8.3
Discount rate	Decrease by 0.5% per annum	(84.0)	(9.7)
Expected rate of pension increases	Increase by 0.5% per annum	(65.3)	(7.5)
Expected rate of pension increases	Decrease by 0.5% per annum	67.3	7.8
Life expectancy	Increase by one year	(37.9)	4.4
Life expectancy	Decrease by one year	37.5	4.3

Notes to the financial statements

for the year ended 31 December 2020

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2020

Movements in respect of the assets and liabilities of the Scheme are:

	2020 £m	2019 £m
At 1 January	1,001.5	951.2
Interest on assets	20.7	27.1
Remeasurement of assets	91.5	54.6
Benefits paid	(36.5)	(31.4)
Fair value of plan assets	**1,077.2**	1,001.5
At 1 January	(865.2)	(795.6)
Interest cost	(17.8)	(22.6)
Actuarial (losses)/gains due to change in demographic assumptions	(0.6)	6.4
Actuarial losses due to change in financial assumptions	(74.8)	(90.4)
Actuarial gains due to experience	12.9	5.6
Benefits paid	36.5	31.4
Present value of funded obligations	**(909.0)**	(865.2)
Net asset	**168.2**	136.3

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 2020, 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.

Notes to the financial statements

for the year ended 31 December 2020

16. Retirement benefit obligations (continued)

(iv) Reporting at 31 December 2020

The fair value of the Scheme assets at the year end date is analysed as follows:

	2020		2019	
	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	762.4	-	643.2	-
Portfolio funds	286.9	38.8	345.6	6.1
Exchange-traded futures and over the counter derivatives	3.3	5.6	(7.8)	(8.1)
Cash	24.6	-	20.5	-
Total	**1,077.2**	**44.4**	1,001.5	(2.0)

Notes to the financial statements

for the year ended 31 December 2020

17. Share-based payments

The Company makes share-based payments to key individuals through awards over ordinary shares of Schroders plc.

Awards over 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. 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. Awards are structured as nil-cost options.

Awards over ordinary shares made under the Group's Deferred Award Plan are charged at fair value as 'Operating expenses' in the income statement. 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. Awards are structured as nil-cost options.

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. Awards are structured as nil-cost options.

Awards that lapse or are forfeited result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Company has the following share-based payment arrangements:

2011 Equity Compensation Plan: Under this scheme, key individuals receive deferred bonus awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the third anniversary provided the participant continues to be employed within the Group.

Deferred Award Plan: Under this scheme, certain employees receive deferred bonus awards over ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest provided the participant continues to be employed within the Group. The vesting periods vary but typically participants have a right to one third of an award after each year of a three year vesting period.

2008 Equity Incentive Plan: Under this scheme, eligible individuals receive awards of ordinary shares in Schroders plc, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the fifth anniversary of the grant, provided the individual continues to be employed within the Group.

All of the above share-based payment arrangements involve a maximum term of ten years for each option granted and are settled through the transfer of equity instruments of its ultimate parent, Schroders plc to its individuals.

Share Incentive Plan: Under this scheme approved by HM Revenue & Customs, eligible individuals can purchase ordinary shares in Schroders plc. each month up to £1,800 per taxation year from their gross salary. The Group matches employee share purchases up to £100 per month. These matching shares are effectively free shares awarded to the individual subject to their remaining in employment for one year.

The Company recognised total expenses of £827,000 (2019: £1,469,000) arising from share-based payment transactions during the year.

Notes to the financial statements

for the year ended 31 December 2020

17. Share-based payments (continued)

(a) 2011 Equity Compensation Plan

	2020 Ordinary shares Number	2019 Ordinary shares Number
Rights outstanding at 1 January	27,277	45,148
Granted/Shares in lieu of dividends	6,355	7,403
Forfeited	(388)	566
Exercised	(13,844)	(25,840)
Rights outstanding at 31 December	**19,400**	27,277

Vested	**4,678**	5,881
Unvested	**14,722**	21,396

Weighted average fair value of share granted (£)	**23.61**	25.41
Weighted average share price at dates of exercise (£)	**28.69**	28.01

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £112,000 (2019: £180,000) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2020

17. Share-based payments (continued)

(b) Deferred Award Plan

	2020	2019
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	80,146	48,635
Granted/Shares in lieu of dividends	36,412	181,988
Forfeited	(4,319)	-
Exercised	(24,135)	(12,396)
Transfers	-	(138,081)
Rights outstanding at 31 December	**88,104**	80,146
Vested	**10,210**	4,513
Unvested	**77,894**	75,633
Weighted average fair value of share granted (£)	**23.61**	29.14
Weighted average share price at date of exercise (£)	**26.89**	27.52

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A charge of £764,000 (2019: £1,112,000) was recognised during the financial year.

(c) 2008 Equity Incentive Plan

	2020	2019
	Ordinary shares Number	Ordinary shares Number
Rights outstanding at 1 January	23,305	47,321
Granted / Shares in lieu of dividends	1,521	3,272
Forfeited	(8,690)	(3,753)
Exercised	-	(23,535)
Rights outstanding at 31 December	**16,136**	23,305
Vested	2,968	-
Unvested	13,168	23,305
Weighted average fair value of share granted (£)	27.60	32.34
Weighted average share price at dates of exercise (£)	-	31.76

There is no weighted average fair value for shares granted in lieu of dividends. The weighted average exercise price per share is nil.

A credit of £94,000 (2019: £137,000 charge) was recognised during the financial year.

Notes to the financial statements

for the year ended 31 December 2020

17. Share-based payments (continued)

(d) Share Incentive Plan

The monthly share purchase plan is open to most individuals and provides free shares in Schroders plc to match purchases up to a maximum of £100 per month. Pursuant to these plans 1,590 ordinary shares were granted (2019: 1,590), at a weighted average share price of £29.21 (2019: £28.93). A charge of £45,000 (2019: £40,000) was recognised during the financial year.

18. Related party transactions

(a) Transactions between related parties

Transactions between the Company, its own subsidiaries and its fellow subsidiaries, which are related parties of the Company, together with details of transactions between the Company and other related parties are disclosed below.

	2020			
	Revenues £'000	**Expenses £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Immediate parent	502	(10,920)	1,574	(7,630)
Other related companies within the Group	22,262	(6,033)	37,500	(9,051)
Total	**22,764**	**(16,953)**	**39,074**	**(16,681)**

	2019			
	Revenues £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Immediate parent	426	(13,597)	47	(3,029)
Other related parties within the Group	17,295	(6,250)	30,870	(8,629)
Total	17,721	(19,847)	30,917	(11,658)

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 or doubtful debts was recognised in the year in respect of the amounts owed by related parties (2019: £nil).

Notes to the financial statements

for the year ended 31 December 2020

18. Related party transactions (continued)

(b) 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:

	2020	2019
	£'000	£'000
Short-term staff related benefits	2,077	1,966
Termination benefits	594	-
Share-based payments	519	960
Other long-term benefits	401	866
Post-employment benefits	15	6
	3,606	3,798

Included in the accounts of other subsidiaries of the Group are amounts owed to related parties of £56,000 (2019: £188,000) and net interest and fee income of £10,000 (2019: £9,000).

19. Ultimate and immediate parent company

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