Key risks and mitigations

We are exposed to a variety of risks as a result of our global business activities. Effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. We place significant focus on the integrity and good conduct of employees and doing the right thing for our stakeholders. Our risk management framework is underpinned by a strong control culture with clear oversight responsibilities.

Managing risk

The Board is accountable for risk and oversight of the risk management process. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on the business. Non-executive oversight of the risk management framework process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee.

It is the responsibility of all employees to uphold the control culture of Schroders. We embed risk management within all areas of the business at a Group and legal entity level. The Group Chief Executive and GMC, as the principal advisory committee, have responsibility for regularly reviewing the key risks we face. This includes ensuring that their respective business areas in all legal entities are identifying, monitoring and reporting on relevant risks and controls. They are also responsible for monitoring that individual behaviours reflect the culture and core values of the business.

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group. Independent monitoring and reporting of risks and controls across the Group and at a legal entity level is undertaken by the second line.

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

The Group Conflicts Committee supports the Group Risk Committee and GMC in identifying and managing conflicts that may arise from time to time in our diversified business.

Lines of defence

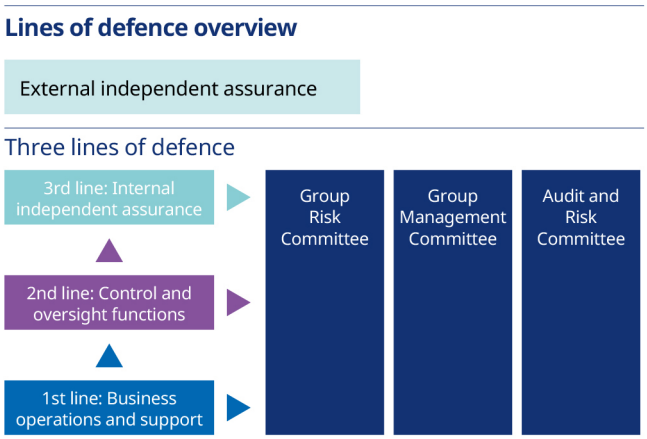
The first line of defence against undesirable outcomes is the business functions themselves and the line managers across the Group. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks, including through the Risk and Control Assessment process.

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

Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and

recommendations to improve the control environment, supplemented by external assurance from the Group's auditors. The team also carries out thematic compliance monitoring work.

We maintain comprehensive insurance cover with a broad range of policies covering a number of insurable events.



Our control framework is underpinned by a set of policies, which are reviewed annually to ensure they remain relevant. Our approach is to have simple, principles-based policies that are adopted across the Group. This means our employees are well supported with clear guidance on what they should do and what we expect of them, while similarly our service providers and partners are briefed on the standards we expect them to adhere to. The Group Policy Framework helps our newly acquired businesses understand the culture of the Group and the parameters we expect them to operate within.

Specific initiatives were undertaken during 2019 by Group Risk that covered a wide range of activities across the Group. Some of these are summarised below:

- Continued to provide focused oversight of our cyber risk through the Information Security Risk Oversight Committee (ISROC). This included the sponsorship of an independent review that provided us with a benchmark of the Group's security capabilities against industry best practice and assessed the security control framework against our risk appetite. The results were presented to Group Risk Committee and to the Audit and Risk Committee and used to inform the information security strategy.
- We have reviewed and enhanced the Group's business continuity and disaster recovery strategy, the results of which were presented to the Group Risk Committee and the Audit and Risk Committee. A key focus is ensuring our critical business services are resilient and that we can continue to operate in the event of loss of a critical service provider.
- Working closely with our Information Security team, our annual crisis management exercise challenged and tested our GMC members to navigate through a cyber attack, the loss of a critical service provider and a potential external fraud scenario.
- We have tested our business continuity and recovery options, including our pandemic plans, which have been activated in response to the Covid-19.
- Working with our investment operations teams we have been assessing the resilience of our investment platform and our ability to service our customers in the event of an outage.
- We have reviewed our procurement approach to improve management of third-party suppliers and in turn strengthened the linkage to resilience of the Group's activities.
- We have supported growth initiatives in our Private Assets business and our global operating strategy.

- We have assessed the risks in our acquisitions, investments and joint ventures including ThirdRock, Blue Asset Management, BlueOrchard and Schroders Personal Wealth.
- We have combined our cyber and technology risk oversight team with our business continuity team.
- A number of thematic investment risk reviews have been conducted to support the oversight and challenge of risk-taking within portfolios. Themes covered included fund capacity, private asset risks and the levels of active risk taking.
- We have enhanced our liquidity oversight framework. Additional metrics were introduced to provide early warning signals and an enhanced Liquidity Management Plan was established to support decision making under stressed market conditions.

The Risk and Control Assessment (RCA) process continues to be a key part of our operational risk framework and is summarised in the following diagram. In 2019, we have strengthened the challenge and oversight performed by our extended second line functions: Governance, Compliance, HR, Tax, Finance and Legal.

Key risks

Assessment of key risks

We periodically assess the risks faced by our business and as a result the key risks for the Group are updated to ensure they are well understood and managed. We have identified 19 key risks across strategic, business and operational risk categories, as shown on the following pages.

These risks have been assessed in light of the current environment, taking into consideration the views of subject matter experts and risk owners within the firm, geopolitical risks that may impact our clients, market conditions and the ability of our employees to operate in local offices around the world. Regulatory sentiment, changes within the business and threats with uncertain impact, probability and timeframes could impact the Group. We continuously monitor internal and external environments to identify new and emerging risks. We then analyse each risk and assess how this can be managed and mitigated.

We have added Climate change risk as a new Business risk, to highlight the risk of climate change to the Group and the portfolios we manage. We have considered the physical risks, as a result of more extreme weather events and prolonged climate impacts from increased global temperatures, and the transition risk as economies

of the world shift towards a low carbon environment. Importantly we have recognised the impact if we don't deliver on our commitments made to stakeholders and the reputational damage this may cause.

We have added Business services resilience risk as a new Operational risk, which replaces Third party service provider risk. This provides an aggregate view of the interdependencies between Technology risk, third party service providers and Process risk which must be managed to mitigate a failure of a critical business process. This also meets regulatory expectations as required.

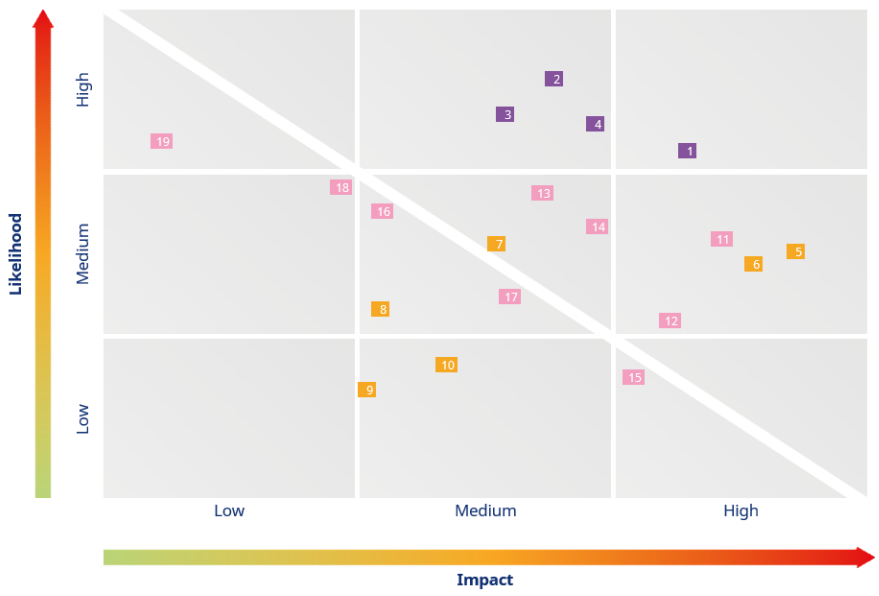
The Group determines which key risks it considers to be heightened, for example those that are more costly if they materialised, and we then undertake further work to manage these actively. When considering these risks, we take into account the objectives of regulators to ensure market integrity, good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

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

The risks that we consider to have either a higher likelihood of impacting the organisation, or with a higher likelihood of occurring, are shown above the diagonal line.

Details of how we manage our risks are described in the tables on the following pages.

Risk impact matrix



Strategic risks

1 Changing investor requirements
2 Fee attrition
3 Business model disruption
4 Market returns

Business risks

5 Reputational risk
6 Investment performance risk
7 Climate change risk
8 Product risk
9 Business concentration risk
10 Financial instrument risk

Operational risks

11 Conduct and regulatory risk
12 Information security risk
13 Process risk
14 Business services resilience risk
15 Fraud risk
16 Technology risk
17 Legal risk
18 Tax risk
19 People and employment practices risk

Key risks

(a) Strategic risks

Impact for Schroders: These risks relate to our strategy and the environment in which we operate. If these risks are not carefully managed, our AUM may be lowered and likewise the income we receive may decrease. Our business plans seek to address these risks by responding to the challenges faced and by growing our assets and earnings.

Higher-rated key risks	Description	How we manage risk
1. Changing investor requirements	Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect these changes could lead to a drop in AUM. This continues to be notable in the Solvency II driven investment requirements of clients and the move from Defined Benefit to Defined Contribution pensions for example. ESG is a material part of our client considerations and we expect climate change risks to feature more heavily in future investment requirements and offerings.	We have a dedicated Product, Solutions and Quant division that focuses on developing our product strategy. We continue to expand our capabilities into new areas, including private assets, and to commit seed capital to developing solutions. We carefully manage our cost base to respond to our clients' changing asset allocation requirements.
2. Fee attrition	Clients allocate more of their assets to passive products with a lower fee budget allocated to public markets, which results in a smaller pool of capital allocated to active fund managers and increased competition on price. A move towards vertical integration can also impact revenues of investment managers as the pricing power may reside with the organisations that have the end client relationship.	We are increasing our focus on solutions and outcome-oriented strategies and private assets, which diversify our fee income. We are also increasingly diversifying our product offering, supporting long-term profitability. We also remain focused on our strategic objectives of moving closer to the end client.
3. Business model disruption	Our business model could be disrupted by a range of external factors including technology changes, product evolution and market participants. Changes in regulation such as the value assessment, RDR and PRIIPS could be disruptors to the traditional role of asset managers.	We are increasing our delivery of efficiencies and insights through technology. Digital initiatives are in progress to improve client experience, engagement and servicing. We are investing in our technology platform to support scalability, agility in our product offering and our expanding Private Assets business.

Higher-rated key risks	Description	How we manage risk
4. Market returns	Our income is primarily derived from the assets we manage. Falling markets reduce our AUM and therefore impact revenues. This could be sudden in cases such as the Covid-19 where material disruption to the supply chain and distribution networks in consumer activity may occur. Market falls may also be exacerbated by geopolitical risks and the currency in which the AUM is denominated and clients are billed. Economic uncertainty and slowing global economies may also impact markets. The response of central banks may have a dependency on fiscal measures which could impact market returns. Greater cooperation across central banks may be required, at a time when economies are becoming more inward looking. Capital investment may be targeted at domestic growth rather than being allocated to cross border initiatives. Lower levels of capital raising on public markets shrinks the size of the investable market and the opportunity for returns.	We have diversified income streams across a range of markets to mitigate falling markets in any one area. Our focus on growing our private assets and alternative product range allows us to have a broader range of income streams which are less directly linked to public markets. We strive to outperform our competitors with a view to attracting assets, which may offset a decline or fall in any given market while pursuing returns for our clients.

(b) Business risks

Impact for Schroders: In executing our strategy, a number of key risks arise that could impact our ability to attract and retain clients. By evolving our product offering and delivering investment performance, we have the best opportunity to be selected by clients when allocating assets. A failure to achieve this could lead to a decrease in AUM.

Higher-rated key risks	Description	How we manage risk
5. Reputational risk	This may arise from poor conduct, judgement or risk events due to weaknesses in systems or controls. The reputation of Schroders can be impacted by any of our key risks and in particular for Conduct and regulatory risks which may materialise.	We consider reputational risks when initiating changes to our strategy or operating model and maintain high standards of conduct.
6. Investment performance risk	There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent performance, resulting in clients moving assets away from the Group, or a failure to attract new assets.	We have clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in our business processes and governance.

Higher-rated key risks	Description	How we manage risk
7. Climate change risk	In terms of the assets we manage, this is the risk of a failure to understand the pricing of assets affected by climate change due to declining cash flows from industries or those with a lower demand from investors. This may lead to poor investment decisions and more volatile pricing as asset prices adjust to reflect the increasing regulation of carbon emissions. Our business may also be impacted if we fail to offer climate friendly products which will impact our performance, brand and reputation. Our business activities are directly or indirectly disrupted if we do not meet corporate emissions targets.	We have developed a range of tools to better understand the impacts of climate change on the portfolios we manage, including a physical risk model and a transition risk model. We assess our corporate exposure to physical climate change risks and that of our supply chain. We actively monitor our emissions and have adopted targets to reduce our carbon footprint.

Lower-rated key risks	Description	How we manage risk
8. Product risk	There is a risk that our product offering is not suitably diversified, or does not provide access to strategies that will help clients to meet their objectives. There is also the risk that the product liquidity is not consistent with the product description, or the redemption requirements of clients.	Our dedicated Product, Solutions and Quant function focuses on strategy, innovation and changing client requirements. We have established a Product Governance Committee to monitor products at each stage of their lifecycle. We have a liquidity risk management framework and monitor liquidity on an ongoing basis.
9. Business concentration risk	The risk that insufficient diversification in distribution channels, products, clients, markets or income streams could impact our business.	We have a broad range and scale of products, distribution and investment channels and our development of strategic relationships and acquisitions enables further diversification of income streams.
10. Financial instrument risk	We face market, credit, liquidity and capital risks from the instruments we manage as part of our AUM, as well as those arising from holding investments where we act as principal. The impact of financial instrument risks on our business may negatively affect our earnings, balance sheet or our ability to invest in our business.	We manage capital and liquidity through Board-set limits and in the Group Capital Committee, and the Assets and Liabilities Committees of the private banks. We monitor our credit and counterparty exposure in the Group balance sheet and in the bank lending portfolios. We manage market risks in our investment capital and foreign exchange risk in our income.

(c) Operational risks

Impact for Schroders: Operational risks are inherent in all activities and processes. They exist in the normal course of business and are heightened when we undertake changes to our organisation. When operational risk events occur, this may affect our clients and our ability to serve them. We may be liable for financial losses or fines, which could affect our business performance and may weaken our standing with stakeholders.

Higher-rated key risks	Description	How we manage risk
11. Conduct and regulatory risk	The risks of inappropriate conduct, conflicts management practices or behaviour resulting in detriment and client harm, or market abuse, and of failing to meet regulatory requirements and changes.	We promote a strong compliance culture among all our staff through communication of our Group's purpose and values, policies and procedures, appropriate governance, monitoring and assurance activities, staff training, appropriate remuneration structures and the annual appraisal process.
12. Information security risk	The risk that our technology is compromised or inadequate, resulting in the confidentiality, integrity or availability of our clients' and our own data or Schroders' services being negatively impacted.	Formal governance of information security (cyber) risks exists across the three lines of defence and is monitored by the Information Security Risk Oversight Committee.
13. Process risk	The risk of failure of significant business processes, such as mandate compliance, client suitability checks, financial crime risk management and asset pricing.	Our key business processes are regularly reviewed and the risks assessed through the RCA process. When we undertake change, such as acquisitions, we assess new processes that may arise.
14. Business services resilience risk	The risk we are unable to operate critical business services, this includes our third parties' readiness to manage the risk from the Covid-19.	We manage this throughout processes, procedures and plans which are tested to ensure we can maintain service, respond or recover.

Lower-rated key risks	Description	How we manage risk
15. Fraud risk	Fraud could arise from any attempt to defraud the business or our clients by circumventing our processes and controls.	Controls are in place, which are assessed as part of the RCA process. We apply particular focus to our payment processes.
16. Technology risk	A change or failure in technology could pose a risk to the integrity or availability of the services we offer.	Policies and technical standards are deployed, together with robust project and change management processes, which cover the assessment of business requirements, risk and scalability.
17. Legal risk	The risk that we, our clients, our suppliers or other third parties fail to meet or record legal or regulatory obligations, and related disputes.	Our policies and procedures consider Legal risk as part of their design. We have an escalation process for areas of material risk and our Legal function supports our employees globally across our business.

Lower-rated key risks	Description	How we manage risk
18. Tax risk	We and the funds we manage are exposed to tax compliance and reporting risks, which include the submission of late or inaccurate tax returns.	Our tax strategy sets out our approach to managing our tax affairs, underpinned by a governance framework and supported by the Tax function, which works with management and advisers to monitor our position and relevant tax changes.
19. People and employment practices risk	The inability to attract, retain or develop key employees to support our business, offer an attractive value proposition under remuneration regulation or maintain high standards in employment practices.	We have sustainable succession and employee development processes and recruit selectively through our entry-level and experienced hire programmes. We have competitive remuneration, which is designed to encourage retention, and we build depth and strength in our workforce.