

## Our risk management framework

**Our rapidly evolving industry, global presence and core business activities mean that we are exposed to a variety of risks. Our risk management framework and strong system of internal control enable us to manage our risks and helped us respond to the challenges of 2022. Integral to our framework is our strong control culture and the effectiveness of our three lines of defence. Our second line of defence was strengthened in 2022 by bringing together our Risk and Compliance functions. This has allowed us to provide better oversight of the first line, enabling us to support business growth in a risk controlled manner through more integrated discussions and alignment of approach.**

### Managing risks

The Board is accountable for the maintenance of a prudent and effective system of internal control and risk management. 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. We embed risk management within all areas of the business at Group and legal entity level. The Group Chief Executive and Group Management Committee (GMC), as an advisory committee to the Group Chief Executive, regularly review the key risks we face. They are also responsible for monitoring that individual behaviours, within the teams they manage, reflect the culture and control standards of the business. The Group Strategy Committee, which supports the Group Chief Executive with the development and delivery of the Group's strategy, regularly receives a risk dashboard which includes metrics to monitor exposure against key risks. Subsidiary boards fulfil their obligations for managing risks in line with regulatory and legal requirements.

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 and chairs the Group Risk Committee (GRC). The GRC supports the Chief Financial Officer in discharging his risk management responsibilities. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews emerging risks and changes to existing risks.

The GRC is supported by a number of sub-committees, including the Group Conflicts Committee, the Financial Crime Committee and the Information Security Risk Oversight committee which review and challenge risks and report significant risk matters to the GRC.

### Lines of defence

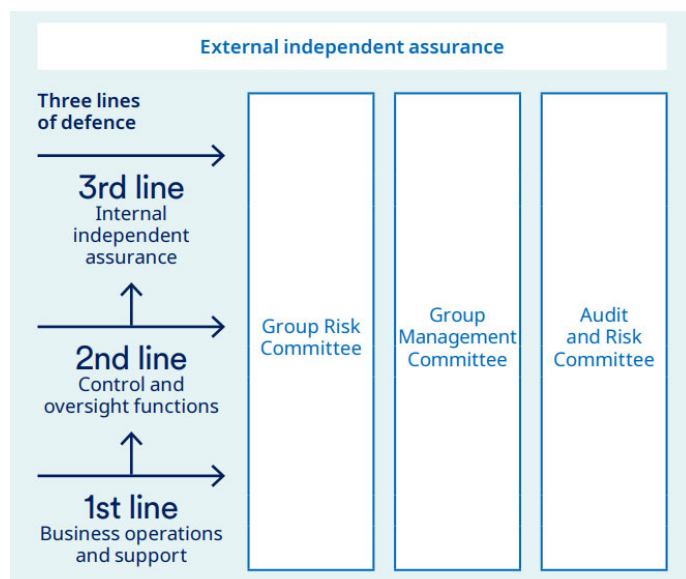
The first line of defence in managing and mitigating risk is the business functions themselves and the line managers across the Group. Heads of each function take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls to manage these risks, by applying our Risk and Control Assessment (RCA) process.

Line management is supplemented by oversight functions, including Group Risk, Compliance, Legal, Governance, Finance, Tax and HR, which constitute the second line of defence. The compliance assurance 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 auditor. 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.

## Lines of defence overview



## Risk appetite

Risk appetite statements are set by the Board and cover all our key risks (excluding strategic risk, as this risk type mainly comprises factors that are external to our operating model) and apply to all areas of the business.

We have a Group level risk appetite statement and a number of entity level statements. In 2022, we reviewed and refreshed our risk appetite statements for applicable UK entities to reflect the harms identified in our solo-entity Internal Capital Adequacy and Risk Assessments (ICARAs) and developed new risk appetite statements for in-scope entities where needed.

Each risk appetite statement is supported by a number of metrics and tolerances to enable us to provide an assessment of risk position against risk appetite. This is then formally assessed on an annual basis and is reviewed and challenged by the GRC, GMC and the Audit and Risk Committee prior to the Board.

## Strengthening our approach to risk management

In 2022, we combined our Risk and Compliance functions under the leadership of the Chief Risk Officer (CRO). Bringing these functions together has allowed us to increase collaboration and effectiveness across the teams, develop talent, and ultimately improve the robustness of the second line of defence.

We have found natural synergies between the two functions. For example, a failure to comply with conduct and regulatory expectations is most likely to arise due to operational risk failures. As such, management of these risks in a more integral way is proving beneficial. We have also seen improvements in our reporting. We have combined our reports to the GRC and Audit and Risk Committee which has enabled us to more clearly highlight the key matters for senior management attention, resulting in more focus on these issues. In addition, by having our Investment Risk and Investment Compliance teams work together more closely we have been able to leverage the skills and experience of both functions in order to provide better oversight of our portfolios.

## Notable developments

In 2022 a number of initiatives were undertaken to progress our management of risk. Some of these are summarised below:

- We further enhanced **ESG risk dashboards** and analytical techniques to support the review and challenge of ESG risks, including at the Asset Class Risk and Performance Committees. These committees are the primary venue for the first and second line functions to review and challenge risk and performance. For private assets strategies we developed proprietary scorecards to assess the ESG risk of individual transactions.
- We successfully completed the first phase of the FCA's and PRA's **operational resilience** regulations. The Schroders plc Board and relevant legal entity boards approved the operational resilience self-assessment documents. These assessments identified our most important business services, the level of resilience required for these services and the areas of our operational resilience that we should enhance. We are now focused on enhancing the areas of operational resilience identified, integrating ongoing compliance with the regulations into business-as-usual activities and continuing to mature our approach to achieve full operational resilience by March 2025.
- The Information Security Oversight Committee continues to provide oversight of the management of **cyber risk**. The focus in 2022 has been on testing our cyber defences through simulated cyber attacks. This has provided valuable insights into the areas we should prioritise for enhancement. Given this we have initiated a Group wide multi-year programme to further accelerate the evolution of our cyber defences which will enable us to make cyber defences as effective as possible and that they evolve in line with the threats that we face. Attacks by organised crime groups (for example targeted ransomware) remain risk for financial services and Schroders is no exception.
- We have been working with the firms we acquired in 2022 to move them onto our network, integrate them into Schroders' frameworks (as appropriate) and align our policies so that our control standards are consistent across the Group.
- We have ten UK entities in scope of the FCA's Investment Firms Prudential Regulation (IFPR). The regulation sets risk, capital and liquidity requirements, revised remuneration and governance standards and requires investment firms to complete an **ICARA**. In 2022, all of our solo-entity ICARAs were approved by their respective boards. As part of the development of the ICARAs we identified, assessed and quantified harms to clients, markets and the firm itself and confirmed that we have sufficient capital and liquidity resources under the new regime.
- Our Credit Risk team designed and developed a new automated tool to run **loan book stress tests and diversification analysis** reports for the Wealth Management banks which provide clear and up to date information for quick decision making in a volatile market. The reports are presented monthly to the various Assets and Liabilities Committees for discussion and approval.
- Within operational risk we have continued to enhance our RCA framework. Our **RCAs are a core part of our operational risk** framework and help us manage operational risk across the Group. They are used to identify inherent risks in business processes and document the controls in place to mitigate risks, enabling us to maintain ongoing oversight of the risk profile. This year we:
  - Incorporated consideration of **ESG and Operational Resilience** risks into the RCA process, leveraging the advice from specialist teams.
  - Implemented a **mid-year RCA review** to capture changes in business processes and associated risks on a formal basis. This was in addition to the existing expectations that RCAs be updated following periods of business change.
  - Developed a quarterly review of **high residual risks** to track and monitor the timely progression of actions to reduce risk and any changes to these risks.
- The way in which we communicate with clients is becoming increasingly more sophisticated and varied as we are communicating on a wider product and investment service range, in a wider set of jurisdictions. To mitigate reputational risk and the risk of non-compliance with regulatory requirements we have established a **Client Communications Framework**, which provides a consistent method of communicating with clients across the Group.

- We have a robust **Conduct Risk Framework** which was established a number of years ago. At the heart of the framework is a requirement for business areas to submit Conduct Risk Assessments on a quarterly basis which are reviewed and challenged by the GRC. This year we enhanced our approach by developing business area **Conduct Risk Appetite statements** leveraging the Group risk appetite approach. These risk appetite statements have enabled us to further analyse where conduct risk could occur within each business area, and to develop metrics to assess the current level of risk versus appetite.

### Geo-political risk, economic pressures and our crisis management approach

The last few years have tested our emerging risk and crisis management processes. From the Covid pandemic which began in 2020, to the geo-political events of 2022 (specifically Russia's invasion of Ukraine in February and the LDI crisis in September and October), we have managed all crises with minimal disruption to the business and our clients. We consider emerging risks on a regular basis across the firm and incidents as they arise. We operated a daily call in February and an intraday call in September to manage the impact from the events noted above. We also have a crisis management plan which provides a coordinated and structured approach.

This overall approach served us well in response to Covid and recent events. Whilst geo-political risk continues to remain high due to war in Europe and some political tension between China and the West, our business remains diversified globally, providing additional resilience. We regularly monitor our exposure to geo-political risk and take proactive action where possible. The high inflation, low growth economic environment poses risks to the growth of our AUM and may in turn add cost pressures to the business. We must therefore apply vigilance to maintaining our control environment and continue to manage risks effectively.

### Risk assessment

Emerging risks, and changes to our existing risks, are identified throughout the year, during the normal course of business, and are reviewed and discussed at relevant risk committees and boards. In addition, on a periodic basis we complete a formal assessment of the risks faced by our business using a "top-down" and "bottom-up" approach.

The "top-down" approach uses analysis from Group Risk and discussion with GMC members and subject matter experts around the Group. Emerging risks and trends in existing risks are reviewed in light of the current internal and external environment, geo-political factors, market conditions, changing client demand and regulatory sentiment. The objectives of regulators to ensure market integrity, good conduct, appropriate consumer protection and the promotion of competition within the industry are also taken into account. Each risk is then analysed to assess how it can be managed and mitigated.

The "bottom-up" approach uses the results from RCAs, trends in risk events and high-impact issues logged in our operational risk database, Archer.

The results of these assessments are used to inform our internal key risks which are presented to the GRC prior to the GMC, Audit and Risk Committee and Board.

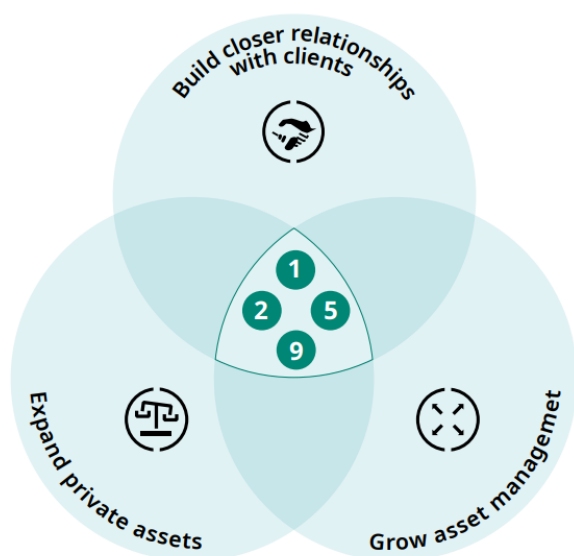
We have reviewed the list of internal key risks and identified a sub-set that are the principal risks to the firm. They are not designed to be an exhaustive list of all risks, but instead capture the principal and emerging risks that are most likely to impact our strategy, business model, external reputation and future performance. The numeric icons are for presentational purposes only and do not indicate a rank. The risks represent our exposure after mitigating controls are applied.

We have included trend arrows showing how our risk profile has changed since last year. Commentary to explain why risks have increased since the prior year, can be found over the page.

We have also included a diagram showing the strategic risks faced by the firm, that are mitigated by our strategy.

We confirm that the Group has an effective risk and controls process, supported by an appropriate governance framework.

## Our strategy mitigates our strategic risks



Movement versus prior year position	Categories of risk
Increased	Strategic risk
Decreased	Business risk
Remained the same	Operational risk

Principal risks	2022	2021
<b>1</b> Business model disruption		
<b>2</b> Changing investor requirements		
<b>3</b> Conduct and regulatory risk		
<b>4</b> ESG including climate change		
<b>5</b> Fee attrition		
<b>6</b> Financial instrument risk		
<b>7</b> Information security and technology		
<b>8</b> Investment performance risk		
<b>9</b> Market returns		
<b>10</b> Operational process risk		
<b>11</b> People and employment practices		
<b>12</b> Product strategy and management		
<b>13</b> Reputational risk		

## Principal risks

Description	How we manage this
<b>1 Business model disruption</b> <p>Our business model could be disrupted by a range of external factors including technology advancements, product evolution and market participants.</p> <p>Geo-political turmoil, including sanctions and conflict, could also impact our business. For example, heightened tension between China and the West may impact our China-based activities or Chinese assets which we invest in on behalf of our clients. This risk remains elevated.</p>	<p>We continue to invest in our technology platform to support our Schroders Capital business.</p> <p>We regularly monitor developments in countries subject to geo-political risk and take steps to protect our people and assets where necessary.</p>

## ② 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 decrease in AUM. An example of where we need to respond to this is to win business that has transferred from defined benefit to defined contribution pension plans. ESG is a material part of our client considerations and we expect climate risks to feature more heavily in future investment requirements and offerings.

The advice gap means demand for wealth management products continues to be high. There is a risk we do not grow and evolve to respond to this demand and retain and attract the right people to serve our Wealth Management clients.

The acquisition of the River and Mercantile solutions business and Greencoat Capital have allowed us to evolve our products to meet a wider range of client needs.

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

We focus our attention where we believe we are able to make a more significant difference to our clients through current or planned future capabilities, in particular closing the UK private client advice gap.

## ③ Conduct and regulatory risk



The risks of client detriment or reputational harm arising from inappropriate conduct of our staff or those of counterparties, suppliers and other third parties we engage, including failure to meet regulatory requirements (including those with respect to conflicts and financial crime), poor behaviour, or failing to meet appropriately our clients' expectations. This risk increased in 2022 due to regulators taking varying approaches to ESG, making implementation more difficult, and disruption in the UK gilt market resulting in increased regulatory scrutiny.

We promote a strong compliance culture and seek to maintain good relationships with our regulators. We also encourage appropriate conduct and regulatory compliance via our conduct risk framework, supported by training and compliance assurance programmes.

## ④ Environmental, social and governance (ESG) risk including climate change



Failure to understand, accurately assess and manage investment risk associated with ESG factors within assets and portfolios and to appropriately represent the risks, and our commitments in relation to them, to clients and stakeholders. This may lead to poor investment decisions, and a failure to offer appropriate ESG products or meet our clients' expectations, impacting our performance, brand and reputation. A failure to meet corporate climate change targets may have a similar impact. This risk has stabilised in 2022 due to improved data coverage of public assets, developments within SustainEx™ and the creation of a Schroders Capital Sustainability and Impact working group. The risk associated with regulators implementing different approaches to ESG, and their heightened scrutiny on this topic, is captured within Conduct and Regulatory risk above.

We have developed a range of proprietary tools to better understand the impacts of ESG risk including climate change on the portfolios we manage. We use ESG risk toolkits to support day-to-day risk oversight and formal review and challenge of investment risk at Asset Class Risk and Performance Committees. We have an Integration Accreditation Framework which we use to assess the integration of ESG factors into our investment desks and re-accredit them on an annual basis. Regarding climate specifically, we have developed a Net Zero Dashboard which enables our investment teams and central risk function to monitor the temperature alignment of portfolios and track our progress against our firm-wide net zero commitment.

## Description

## How we manage this

### 5 Fee attrition



Fee attrition caused by clients allocating more of their assets to passive products, and less to active managers, coupled with a lower allocation to public markets, and a greater allocation to private markets. This has resulted in increased competition on price in the traditional active management market.

We are also exposed to the risk of intermediaries taking more revenue streams.

We have continued to focus on Solutions and outcome-oriented strategies, thematic products and private assets, which diversify our fee income. We have expanded our fiduciary business within Solutions and partnered with a number of new clients in 2022. We are also increasingly diversifying our product offering, supporting long-term profitability.

We are moving to vertical integration and getting closer to clients allowing us to better understand their needs. This has also given us opportunities to access a greater share of available revenue.

### 6 Financial instrument risk



We face market, credit, liquidity and capital risks from movements in the financial markets in which we operate, arising from holding investments as principal. Due to geo-political events resulting in inflation and movements in interest rates we have seen an increase in the volatility of several asset classes and shifts in correlations between asset classes which has resulted in an increase in Financial Instrument risk.

Failure to manage market, credit and liquidity risks arising from managing AUM on behalf of clients would be considered an Operational Process risk.

We manage capital, liquidity and the Group's own investments through Board-set limits and in the Group Capital Committee. Equity market and credit spread risks in seed capital are hedged where it is economic and practicable to do so and foreign currency Group investments are hedged back to sterling. We monitor our credit and counterparty exposure in the Group balance sheet, bank lending portfolios and in our client assets.

### 7 Information security and technology risk



Information security risk relates to the confidentiality, integrity or availability of services being negatively impacted by the activities of a malicious insider or external party. Technology risk relates to the failure in delivering scalability, privacy, security, integrity and availability of systems that leads to a negative impact on the Schroders business and our client experience. Cyber threats have remained at the elevated level reported last year due to the activities of highly capable criminal organisations and state-sponsored threats. Through our programme of testing we continue to have greater insight into the areas we should focus on to enhance our cyber defence capabilities.

We have a dedicated Information Security function responsible for the design and operation of our information security risk framework, which includes oversight of critical third parties' cyber capabilities. Information security risk is overseen by specialists within both the second and third lines of defence and is monitored by the Information Security Risk Oversight Committee. We operate a Global Technology Risk Committee to oversee operational risk associated with IT services across the organisation.

We are also undertaking a migration of our infrastructure and systems to the Cloud. This will allow us to use the capabilities of cloud technologies and the expertise of the providers, further enhancing our resilience and reducing cyber risk.

**8 Investment performance risk**

There is a risk that portfolios may not meet their investment objectives, including, where applicable, a sustainability outcome, or that there is a failure to deliver consistent and above-average performance. There is a risk that clients will move their assets elsewhere if we are unable to outperform competitors or unable to deliver the investment objectives. The change from a long-term low interest rate environment to rising interest rates can impact clients' performance expectations and our ability to meet them and may require adjustments within strategies. Strong investment performance is critical to the success of Schroders.

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. In 2022, 73% of client assets outperformed benchmarks over three years and 76% outperformed benchmarks over five years.

**9 Market returns**

Our income is derived from the value of the assets we manage. Falling markets reduce our AUM and therefore impact revenues. Market falls may be exacerbated by geo-political risks, for example in response to deteriorating relations with Russia. Foreign exchange rates are a key factor in our financial performance as we are sterling denominated with earnings in other currencies.

Economic uncertainty driven by the energy crisis, continued strict Covid-19 measures in China, UK government changes and the UK/ EU relationship presented a risk in 2022. The impact of rising inflation on interest rates, wages and economic growth could impact asset prices and markets, as could an acceleration of climate risk, leading to a fall in AUM. Capital investment may be targeted at domestic growth rather than being allocated to cross-border initiatives.

This risk has stabilised at the higher level reported last year because none of the above factors have eased.

We have diversified income streams across a range of markets to mitigate a considerable fall in any one area. Our AUM from Schroders Capital, Schroders Solutions, and Schroders Wealth Management increased from £368 billion in 2021 to £390 billion in 2022, further increasing our diversification.

Our focus on growing our Schroders Capital product range and investment capabilities allows us to have a broader range of income streams which are less directly linked to markets.

**10 Operational process risk**

The risk of failure of significant business processes, such as compliance with fund or mandate restrictions, fund pricing, trade execution for investment portfolios and client suitability checks, whether these occur within Schroders or appointed third parties. It includes operational integration of acquisitions as there may be some risks whilst newly acquired firms are operating on different platforms, and before they are fully aligned to Schroders' policies. It also includes the ineffective management of joint ventures and associates. Overall this risk remains stable as our control environment continues to mature.

Our key business processes are regularly reviewed and the risks assessed through the Risk and Control Assessment process. Operational risk events are reviewed to identify root causes and implement control improvements. When we undertake change, such as acquisitions, we assess new processes that may arise. We work with acquired firms to move them onto our platforms (where appropriate) and to align our policies. We have a well-established process to assess the risks within our supply chain. We review suppliers throughout the supplier life cycle to identify potential risks which may impact the quality or continuity of service.

**11 People and employment practices risk**

People and employment practices risk may arise from an inability to attract or retain key employees to support business activities or strategic initiatives; non-compliance with legislation; or failure to manage employee performance. This risk has reduced in 2022 as our early move to a flexible working charter has given us a competitive advantage over our peers when recruiting and retaining talent. We are also normalising to a pre-Covid environment with staff coming back to the office and this has boosted morale. This is also evidenced with our latest pulse survey results, with 96% of our employees still feeling proud to be working for Schroders.

We have competitive remuneration and retention plans, with appropriate deferred compensation targeted at key employees. We have sustainable succession and development plans. We have policies and procedures in place to encourage inclusion and diversity and to manage employment issues appropriately, handling them consistently, fairly and in compliance with local legislation.

**12 Product strategy and management**

There is a risk that our product or service offering is not suitably diversified or viable or does not provide access to strategies that will help investors to meet their objectives. There is also the risk that products are not accurately described, do not perform in alignment with their investment objectives for a sustained period, or that product liquidity is not consistent with the product description or the redemption requirements of investors.

Risks are managed within the formal Product Governance Framework, which includes the Product Strategy Committee, Product Development Committee, Product Governance Committee and Capacity Committee.

We have a liquidity risk management framework and monitor the liquidity of our products on an ongoing basis. We have a process to raise awareness of funds identified as having more challenging liquidity profiles so that any changes to client sentiment (or potential redemptions) would be notified to relevant teams rapidly, to reduce potential liquidity risk issues.

**13 Reputational risk**

This may arise from poor conduct, judgement or risk events due to weaknesses in systems and controls. In recent years we have extended our brand through a number of new acquisitions. Reputational issues in joint ventures and associates where we have limited control of the outcome could adversely impact the Group.

We consider reputational risk when initiating changes to our strategy or operating model and focus on maintaining high standards of conduct. We have a number of controls and frameworks to address other risks that could affect our reputation, including: financial crime, investment risk, client take-on, client communications and product development. Our Schroders-appointed board members oversee the activities of joint ventures and associates, supported where necessary by oversight committees.