

Schroder Investment Management Limited

Key Rating Drivers

‘Excellent’ Rating: Schroder Investment Management Limited’s (Schroders) Investment Manager Quality Rating (IMQR) of ‘Excellent’ reflects the company’s disciplined and well-integrated investment process, quality and depth of resources, and independent risk-management framework with multiple layers of oversight. The rating also considers Schroders’ long operational record, expanding franchise and sophisticated client-servicing platform.

‘Excellent’ Investment Process: Fitch Ratings believes Schroders’ investment process is characterised by a timely and well-integrated research platform. Investment objectives are clearly defined and consistently implemented, and portfolio construction follows a disciplined risk-budgeted approach, supported by proprietary risk analytics.

‘Excellent’ Investment Resources: Schroders maintains well-organised teams with minimal key-person dependencies and sound capacity. In Fitch’s view, experience levels are high: over 55% of investment professionals have more than five years’ relevant experience. Front-office workflows are automated and fully integrated, with best-in-class functionality. Schroders uses a third-party system, Aladdin, for investment management and as an investment data store. Aladdin provides data to workflows, supporting research and investment decision-making.

‘Excellent’ Risk Management: Fitch believes Schroders has an effective and highly structured risk-and-governance framework. Independent investment risk-and-performance monitoring provides strong oversight, combined with best-in-class systems for risk-budgeting and stress-testing. Developments such as the operational resilience programme, methodology development and the ESG risk toolkit enhancements contribute to the ‘Excellent’ score.

‘Excellent’ Company and Client Servicing: Schroders has a global, diversified, long-established and expanding franchise. Client servicing remains best in class in Fitch’s view, benefiting from ongoing projects to continue to build a common data platform, enabling real-time reporting and improved workflows.

‘Consistent’ Investment Performance: The company’s investment products have consistently delivered on their stated investment objectives and investor expectations.

Profile: Schroders is a global asset management company and the core subsidiary of Schroders plc (A+/Stable). Schroders had about GBP556 billion of assets under management (AUM, excluding wealth management, joint ventures and associates) at end-March 2022.

The below category scores result from an asset-weighted average of the scores obtained in equities, multi-assets and fixed-income products. Fixed-income, equities and multi-assets represented 76% of Schroders’ total AUM at end-2021. Its IMQR scope excludes wealth management, as well as private-asset and alternative investment activities.

Rating

Rating Type	Rating	Outlook	Last Rating Action
Investment Management Quality Rating	Excellent	Stable	10 Jun 22

Source: Fitch Ratings

Applicable Criteria

Investment Management Quality Ratings Criteria (Assessing Active, Passive & Alternative Investment Managers, Strategies & Funds) (February 2021)

Related Research

[Fitch Affirms Schroders’ IMQR at ‘Excellent’ \(June 2022\)](#)

[Fitch Affirms Schroders at ‘A+’; Outlook Stable \(April 2022\)](#)

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Category Scores

Weight	Category	Score
25%	Investment process	Excellent
25%	Investment resources	Excellent
25%	Risk management	Excellent
15%	Company and client servicing	Excellent
10%	Investment performance	Consistent

Source: Fitch Ratings

Investment Process (Excellent)

Investment Objectives

Investment objectives are clearly defined and consistently executed. Key information such as sources of risk and returns, target returns and investment horizon are well documented.

The investment approach is structured, incorporating layers of oversight to ensure investments are in line with their stated styles and objectives. The investment risk and performance committees, which are specific to asset class, is an example of this oversight.

Investment processes are differentiated by asset class, while being coordinated centrally through the investment platform. The investment platform provides a forum for interaction between the different investment groups as well as with the Environmental, social and governance (ESG) and data insights unit. It also directs investment support resources.

Research Process

Schroders has an exemplary research process demonstrating a high level of discipline and repeatability. Research on Schroders' proprietary system, Nexus, is fully integrated into the core asset-management system, Aladdin. The system provides instant access to in-depth and well-documented research, which we deem to be best in class.

Fitch believes Schroders' practice of centralising tools that are readily accessible and incorporated into investment decision making demonstrates the discipline and repeatability of the process, consistent with an 'Excellent' score for this category.

Investment Platform Governance Management Team Structure

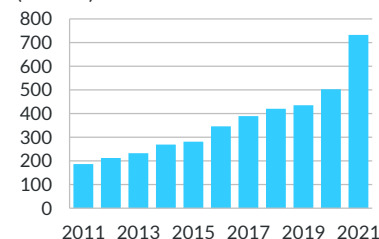


Source: Fitch Ratings, Schroders

The equity and fixed-income asset classes follow a bottom-up research approach, with the investment teams split along key themes, sectors and geographies. This is complemented by top-down macro-economic input and the sharing of information between teams through cross-asset research, and product and investor forums facilitated by the investment platform.

AUM Growth

(GBPbn)

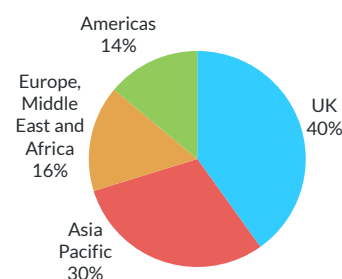


AUM comprises assets managed or advised on behalf of clients

Source: Fitch Ratings, Schroders

Group AUM by Geography

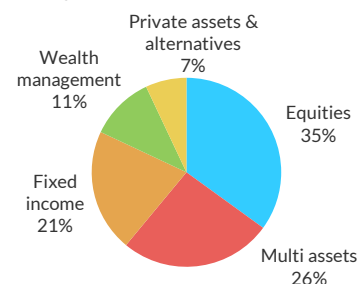
End-2021



Source: Fitch Ratings, Schroders

Group AUM by Asset Class

End-2021



Source: Fitch Ratings, Schroders

The multi-asset investment team uses a 'risk premium' approach to analyse sources of risk and return for asset classes. The processes are structured to provide outcome-oriented solutions for capital preservation, growth, outperformance, income and sustainability.

ESG factors are fully integrated into the investment process for all funds under management. These factors are explicitly considered in all Schroders' investments. The ESG toolkit is collectively referred to as Impact IQ and is integrated into the investment and research platform.

The ESG team has developed such tools as SustainEx, which attempts to quantify social impacts, or ThemeEx, which looks at how products and services impact the environment.

The data insights unit (DIU) is a differentiated research capability in Fitch's view. The DIU uses data science to aid the decision-making process by making new and untraditional data assets available to the firm, and building products to provide greater insight. For example, alternative data such as role-level pay is used to understand labour market trends.

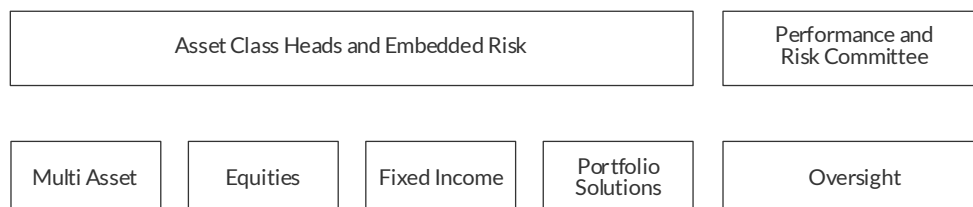
The high level of integration of the DIU into the analytical teams, the scalable delivery of insights using tools integrated into the research platform, and the discipline and repeatability of the process are positive rating factors.

Investment Decision-Making and Portfolio Construction

There is a very clear process in place when making investment decisions. The research view is central to the process, and portfolio construction follows a disciplined risk-budgeted approach supported by proprietary risk analytics.

Specialist portfolio-management teams make the decisions, with analysts participating in the process.

Framework for Investment Performance and Risk



Source: Fitch Ratings, Schroders

Schroders has excellent access to markets it trades in due to its strong reputation and well-resourced trade execution capabilities. The Aladdin platform provides sophisticated performance tracking capability, supported by well documented methodologies and policies.

Trade execution follows best practice principles in Fitch's view. The data enablement and trading team is organised into governance, trading, product support, data engineering and analytics functions. This provides good oversight, organisation and analytics.

Investment Resources (Excellent)

Staffing

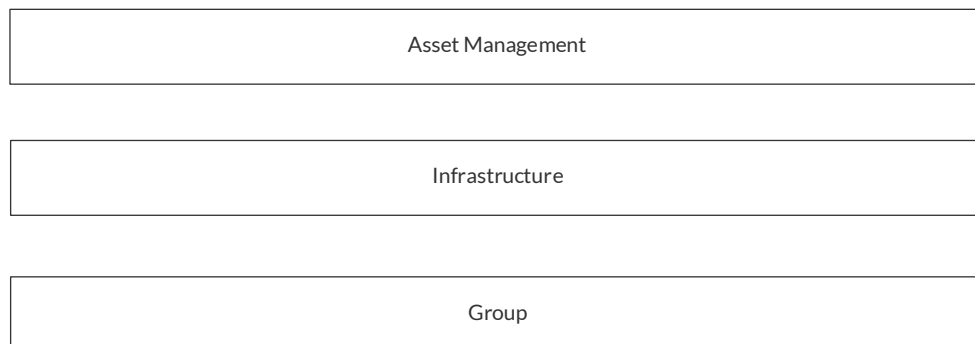
Fitch believes Schroders is well organised with experienced staff. Investment teams are organised by strategy across the regions, operating within a common framework. Business functions are appropriately segregated, with standard reporting lines and clearly established responsibilities.

Schroders is well resourced with an average of 5,650 investment professionals and support personnel in 2021 (2020: 5,556). The number of investment professionals per strategic capability is good in Fitch's view, with about 900 investment professionals across the business, including more than 20 in equity, more than 240 in fixed income and 130 multi-asset specialists.

Staff turnover is low, with 94% of high-performing staff (those who have been rated as either outstanding or exceed expectations in their annual performance review) being retained for four years to end-2021.

The company has detailed back-up and retention arrangements, a strong capacity to hire given its franchise and reputation in the market, and limited key-person risk with its team-based approach. All of these factors mitigate the impact of staff turnover on the investment process.

Organisation Structure



Source: Fitch Ratings, Schroders

Front Office Workflows and Technology

Schroders has an automated and highly effective front-office workflow, with best-in-class functionality. The Aladdin asset-management system is used throughout the group and proprietary systems, such as NEXUS for research, and other third-party systems, such as Risk Metrics for analytics, are fully integrated into the technology platform.

Aladdin has full coverage across the traditional asset-management business, which has enabled data to be aggregated and made accessible on demand to core and ancillary systems supporting research, investment decision-making, analytics and client servicing.

Schroders has optimised the functional capability of Aladdin to maximise automated workflows and is working on decommissioning some legacy platforms.

Middle-, Back-Office Support and Third-Party Service Providers

Middle- and back-office resources demonstrate a good fit to Schroders' objectives. The global operating strategy comprises two elements: the Fund Ecosystem, which includes fund accounting, transfer agency and reporting work streams, and the Aladdin Transformation, which deals with all of the Aladdin implementation elements and associated technologies. Progress includes vendor management and content management tools deployment. Developments like the fund accounting project to enable a scalable approach is viewed positively by Fitch.

Schroders has also established a global data warehouse to provide real-time access to data for clients and sales teams. Its move to the cloud is a transformation project and is still underway.

We view these developments as positive for the rating. Features such as financial messaging with Schroder's key custodian and the development of a global data strategy to enhance efficiency and reduce errors in the front-to-back process.

Risk Management (Excellent)

Risk Control

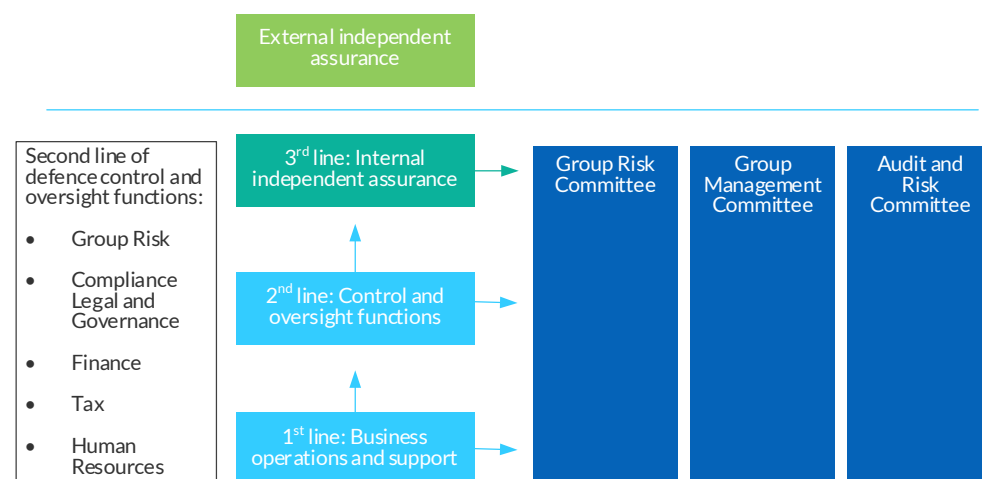
Fitch believes Schroders has an effective and highly structured risk and governance framework. Independent risk and performance monitoring provides strong oversight, combined with best-in-class systems for risk-budgeting and stress-testing. Initiatives such as its operational resilience programme, operational risk system upgrade and methodology developments to enhance workflows and reporting, are rating positive.

The operational risk system has been upgraded for efficiency and ease of use. Information security risk management capabilities have been reviewed to measure progress against peers and best practices.

The firm's strict governance framework is organised around a system of delegation of authority from the board of the company to executives for strategy execution, and to independent committees and functions for oversight. Risk management (second line of defence) oversees the risks taken by the business (first line of defence). Formal monitoring activities and control routines are designed and performed on a risk-assessed basis, with some reviews coordinated with the internal audit function (third line of defence). ESG risk oversight is integrated into the broader risk framework through a range of proprietary tools.

The board has established three committees (audit and risk, remuneration, and nomination), which comprise non-executive directors of Schroders plc. Group risk committees and sub-committees are governed by clear terms of reference.

Risk Framework



Source: Fitch Ratings, Schroders

Risk Monitoring, Measurement and Stress Testing

Schroders has mapped risk profiles and determined suitable limits for each of its funds and mandates. Portfolios' market-risk indicators are monitored against limits and are complemented by stress-testing and scenario analysis for complex funds.

Portfolio and risk managers monitor the portfolio through third-party risk analytics (for equities and fixed income) or proprietary analytics (for multi-assets).

Investment risk-management is embedded in the process through detailed risk budgeting, portfolio-level market sensitivities limits or stop losses, where applicable. Liquidity risk management follows methodologies assessing potential asset and liability mismatches in portfolios. Risk managers calculate measures of liquidity risk and perform stress tests that simulate outflows.

Schroders has defined group-wide principal, agency credit-risk limits and fund-level agency counterparty credit-risk limits, with adherence monitored by Group Credit Risk. The high quality of the counterparty risk-management process is demonstrated through the use of artificial intelligence powered news monitoring tools, and aggregated internal ratings from banks provided by Credit Benchmark. The asset manager has launched new credit risk dashboards to improve risk management workflows.

Fitch views such developments as the operational resilience programme, the ESG risk toolkits and dashboard enhancements as positive.

Compliance

Schroders unified the Risk and Compliance division in 2021 to increase collaboration. A strong compliance framework is in place to oversee compliance with regulations in all jurisdictions in which the group is active.

Restrictions and controls on investment constraints at the portfolio level are monitored automatically through the Aladdin system on a pre- and post-trade basis.

To enhance the accuracy, timeliness and overall effectiveness of the compliance function, the company has established interfaces from Aladdin to provide copies of positions, transactions, security data, portfolio data and a daily feed of portfolio compliance rules, which can be accessed by other systems. ESG criteria alerts have been added to compliance monitoring systems.

Alignment of Interest

Schroders' overall remuneration policy follows industry best practice in Fitch's view. The interests of Schroders' employees are aligned to that of its clients as well as the company's shareholders.

A proportion of variable remuneration is granted in the form of deferred awards over the company's shares, and higher-earning employees may also be granted fund awards (notional investments in funds managed by the group).

Company and Client Servicing (Excellent)

Company

Schroders is a global diversified asset management company and the core subsidiary of Schroders plc. AUM grew to about GBP556 billion (excluding wealth management, joint ventures and associates) at end-March 2022. Schroders' AUM growth (including all businesses) of 10% in 2021 compares with the aggregate growth reported by Investment & Pensions Europe for global asset managers of 20%.

Schroders has a strong franchise in multiple business segments and geographies. This facilitates good access to markets and pricing power, giving them a competitive advantage.

Schroders' strategic priorities include diversifying into wealth management, consultative selling and private assets. Schroders has been listed on the London Stock Exchange since 1959, with the Schroder family holding 48% of the voting equity in various nominee accounts.

Fitch affirmed Schroders plc's Long- and Short-Term Issuer Default Ratings (IDRs) at 'A+' and 'F1', respectively, in April 2022.

Client Servicing

Client servicing at Schroders remains best in class, in Fitch's view. The global operations strategy has allowed investments and operations to operate on a single global platform; delivering highly accessible, timely and accurate investment data to enrich the client experience.

Reporting is compliant with Global Investment Performance Standards and Fitch considers Schroders' content and presentation to be of a good standard.

Investment Performance (Consistent)

Schroders' risk-adjusted performance has been consistent compared to peers' and benchmarks. Overall, 83% and 70% of AuM outperformed their stated comparator over three and five years, respectively, at end-2021.

Outperformance by Asset Class

(%)	3 Years	5 Years
Equity	79	81
Fixed income	85	88
Multi asset	89	39

Source: Fitch Ratings

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