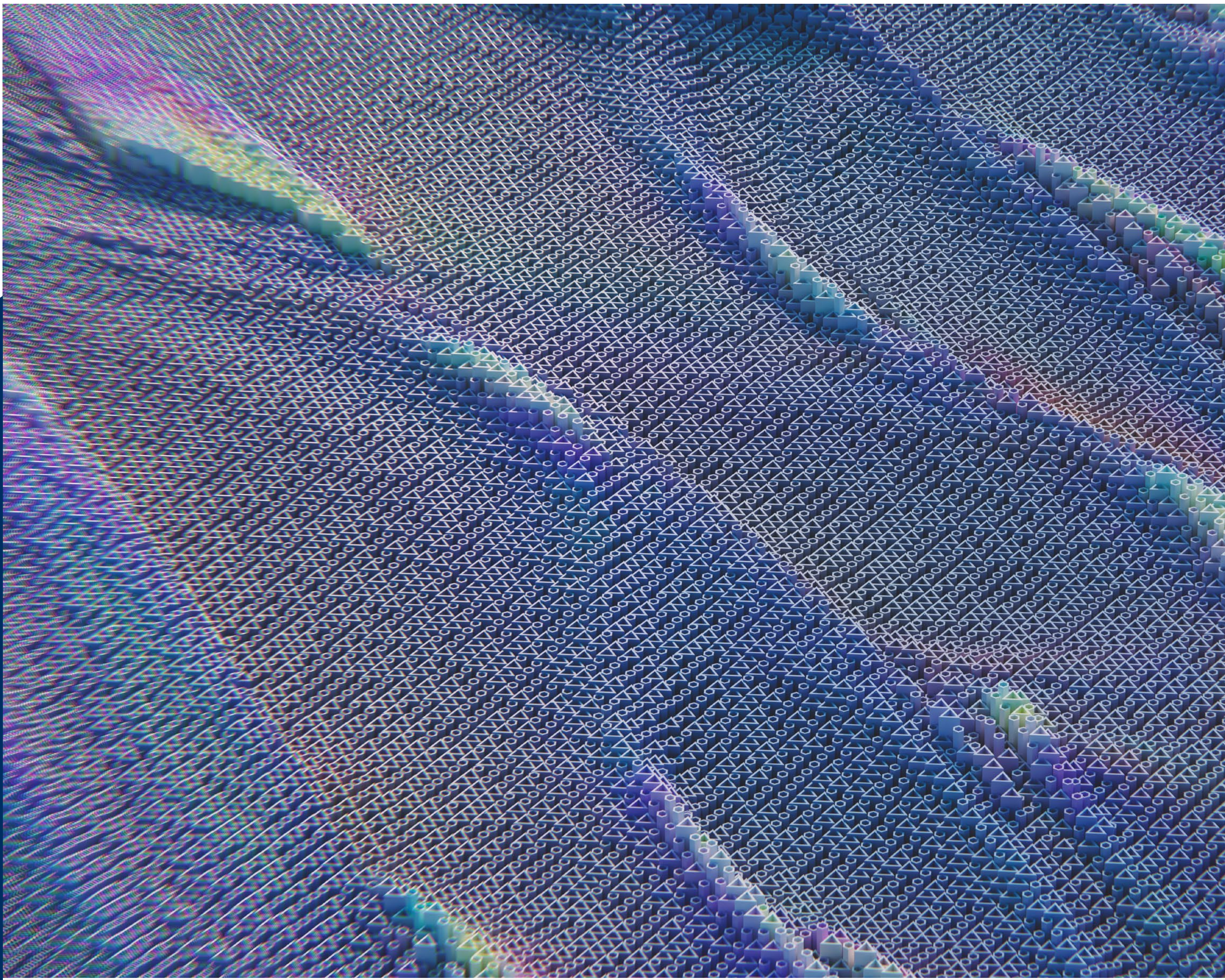
Rothschild & Co
Wealth Management



Mosaique Insights

ISSUE 11 | SPRING 2023

"The only constant in life is change"

- Heraclitus

The first few months of 2023 were remarkable, and raise many questions about the future of the financial markets and the economy at large.

It is against this backdrop that we bring you the latest edition of Mosaique Insights in which we elaborate on how we navigated this first quarter of 2023 with contributions from our investment strategists, portfolio managers and fixed income teams and explain how we are positioning ourselves in this environment.

We also take the opportunity to look at recent market trends, namely artificial intelligence, and highlight most recent developments in the space – expect to hear more on this topic in the coming months. Furthermore, we shed light on the asset class of private markets and provide you with some insights into our philanthropic group approach called R&Co4Generations.

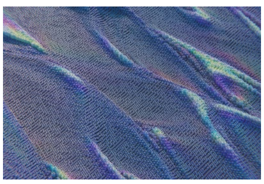
We hope you enjoy this edition of Mosaique Insights and look forward to seeing you in summer!

Laurent Gagnebin

CEO, Rothschild & Co Bank AG

Dr. Carlos Mejia

CIO, Rothschild & Co Bank AG



Values: all data as of 31 March 2023

Cover created with artifical intelligence image creator "Midjourney".

Cyclical risk, structural change

Kevin Gardiner

Global Investment Strategist

Kevin Gardiner

We started the year expecting it to offer a more constructive economic backdrop than 2022. Inflation was beginning to roll over, interest rates seemed close to a peak – or a plateau at least – and economies looked resilient, thanks partly to supply-side flexibility.

Admittedly, geopolitical risk seemed set to stay high, with tension around Taiwan replacing the trauma in Ukraine as the most worrying flashpoint. We saw this elevated threat however as now being familiar and (as long as China remains patient) manageable.

This was not exactly an ambitious assumption for 2023, given last year's difficulties. It has nonetheless been called into question by the re-emergence of bank risk in March. The Global Financial Crisis of 2008 clearly continues to cast a long shadow.

We think banking systems on both sides of the Atlantic are better capitalised now; we think loan books are better quality; and we see the decisive actions of the US and Switzerland (at Silicon Valley Bank and Credit Suisse respectively) as showing that the authorities are alert and, even after more than a decade of "unconventional" measures, inventive, in their willingness to defend the monetary system. We should remember that not every butterfly causes a tornado.

But, if you'll excuse the mixed metaphor, if someone shouts "fire" loudly enough in even the best-designed cinema, damage can be done. As long as depositors are unwitting lenders, conventional banking may be vulnerable. Nominal interest rates have risen a long way, quickly – they have largely returned to "old normal" levels – and it would hardly be surprising if further assets need to be written down, even as the wider global economy continues to cope. Credit conditions will surely tighten further, even if interest rates don't. It will likely be some months before the banking shadow is dispelled.

Even so, a more constructive outlook for 2023 remains intact, we feel. Cyclical risk is indeed quickly refocusing away from interest rates and back towards corporate earnings, as tighter credit makes itself felt (that said, we do still feel that interest rates have a bit further to travel, and that current expectations of rate cuts later in 2023 are premature). But overall, the macro picture may not be that much riskier than it was at the start of the year. Inflation is subsiding, albeit patchily. And supply conditions – global logistics, labour participation rates – continue to improve.

Longer-term, renewed bank nerves do raise the possibility of more profound, longer-term monetary reform if the modern money supply is not to remain hostage to the credit cycle. If banks are too big to fail, they are too big to be allowed to take risk – or, if they are allowed to take risk, they will have to lose their role as monetary utility providers.

The advent of credible digital currencies may have just moved a step closer as a result. This does not mean bitcoin, or another current "crypto" asset: the core problem is private credit creation, not public debasement (recent inflation notwithstanding), and blockchain is too clunky to support the necessary speed and scale of monetary transactions. But the case for central bank digital currencies just got stronger.

This is just one of the many ways in which technology will continue to shape the economy, as per some of the other essays in this issue of Mosaique Insights. We currently seem to be on the brink of another significant step forward in terms of our ability to manage and mine big data, moving beyond rapid calculation and pattern recognition and extending to language and context.

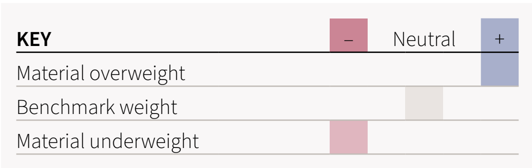
As always, change is making people nervous. But the investment – and welfare – implications – should be embraced. Businesses and jobs will likely be created as well as destroyed – nobody predicted today's digital communications and media back in the day – while others will be revalued: users of big data, content providers, perhaps plumbers and construction workers (humanly dextrous robots are still some way off).

In particular, talk of the scary "Singularity" is premature. Genuine artificial intelligence – as opposed to faster processing speed – will remain elusive until we have understood more clearly what it means to be, and to programme, consciousness.

Note from the CIO

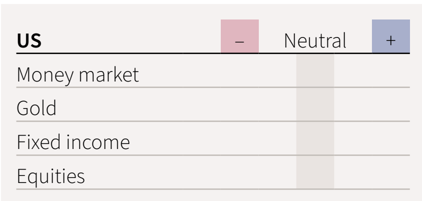
In January, financial markets witnessed a robust rally for equities. The fixed income markets also responded positively to the drop in inflation and the possibility of relaxed monetary policy. However, in February, strong economic data weighed down both equity and fixed income markets. This, combined with persistent core inflation, forced investors to reconsider their interest rate predictions and factor in the likelihood of enduring higher interest rates. In March, the downfall of Silicon Valley Bank (SVB) and broader apprehensions surrounding the financial sector impacted bank shares severely, while government bonds witnessed a rally.

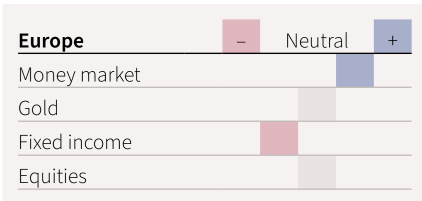
Mosaique Asset Allocation

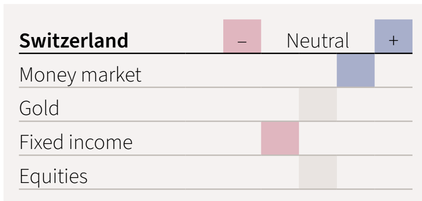


Changes made to our Tactical Asset Allocation in Q1 2023

In early 2022 we reduced our equity positions to neutral in two stages, taking our liquidity holdings to overweight, and staying double underweight in bonds. Later in the year, we used some of the liquidity to reduce the bond underweight, and in US portfolios eventually closed it completely. As interest rates approached a peak, and global business surveys seemed to be bottoming out, we stayed neutral on stocks but at end-January tilted more towards cyclical exposure, and away from defensiveness. We also further adjusted US fixed income positions to reflect what we have seen as improved relative valuations for Treasuries.

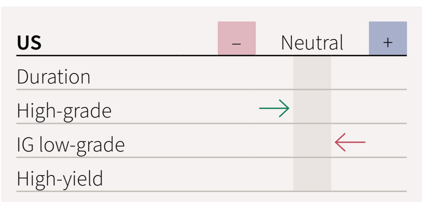


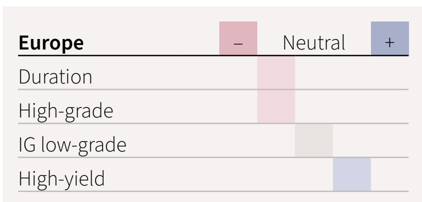


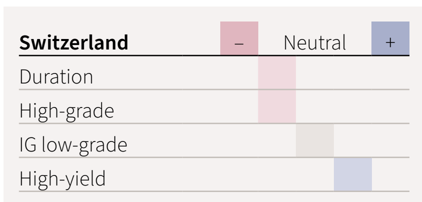


Fixed income

Before SVB's collapse, European bond yields had still not quite returned to levels that we think offer long-term inflation-beating returns, and the European Central Bank seemed furthest away from peak policy rates. The last months have not changed this judgement, and we stay underweight fixed income and duration in European portfolios, with an ongoing preference for the speculative grade (high yield) segment (heightened perceived bank risk notwithstanding). In US portfolios, we stay neutral on both the asset class and duration, and most recently on credit quality too, having closed a long-standing underweight on the highest quality bonds at end-January.





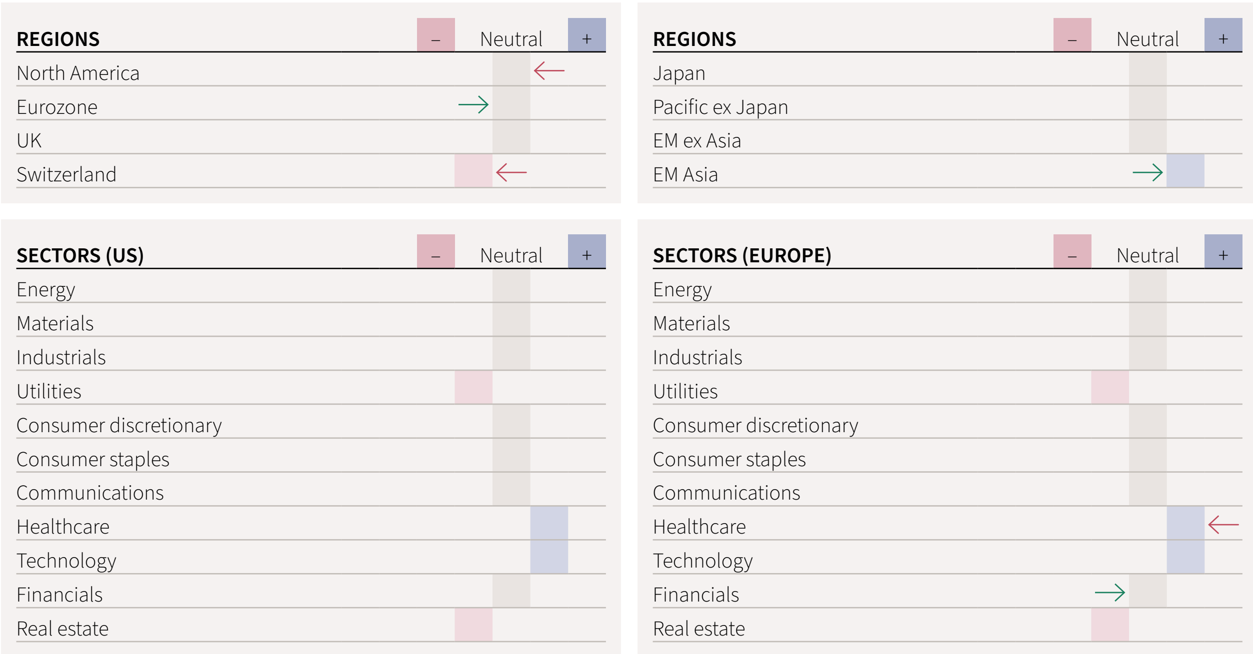


Equities

At end-January we closed a long-standing overweight on the US, and an underweight in continental Europe (ex Switzerland). Europe is the better play on a stabilising global economy – which is still what we expect eventually to prevail – and the relative lack of "growth" stocks may not matter so much in the next cycle. Being neutral on the two big regions we think leaves us well placed to watch the evolving tussle for leadership.

We also re-established an overweight position in emerging Asia – somewhat chastened, as we had closed the position relatively recently, at lower market levels. But the facts had changed: China's cyclical outlook improved materially with the unexpected abandonment of its zero-covid stance and has continued to do so. This judgement is not altered by the bank scare. The counterpart was a renewed underweight position in the defensive Swiss market – which has indeed subsequently underperformed, albeit not for this reason.

In European portfolios, we also closed an underweight in financials in late January and reduced an overweight in (defensive) healthcare. Our sector views in Europe and the US have since been fully aligned and are not yet affected by bank-related fallout.



Alongside the tactical changes made at an Asset Allocation level, this has meant reinforcing our security selection process, where our equity analysts continue to work in partnership with leading Equity Research House, Redburn.

Looking ahead, as noted by our Global Investment strategist, we should remember that not every butterfly causes a tornado. The past few months have reminded us of our duty to remain focused on being long-term custodians and guardians of your wealth. We keep looking ahead to what will be the long-term drivers of change for business, the global economy and your investments, not over weeks or months, but quarters and years.

Market Perspective
Want to read more about the current macroeconomic environment?
Our flagship strategy publication Market Perspective gives you the latest in market and macro-economic insights from our Global Investment Strategists and explains what they mean for your portfolios.
www.rothschildandco.com/insights
Rothschild & Co
Wealth Management

Note from the Manager

Emmanuel Casalis

Portfolio Manager

From a multi-asset manager point of view, the first quarter of 2023 was very positive and an almost perfect reversal of the challenging year 2022.

Equities went up but stayed in the trading range that we have been seeing for several months, with market sentiment staying volatile and depending on macroeconomic data and changes in monetary policy expectations. Credit benefited from a better growth outlook, while high quality bonds were able to protect the portfolios during the failure of US lender SVB as well as the take-over of troubled lender Credit Suisse by UBS. In precious metals, gold achieved a robust price gain and hence acted as a good diversifier. In this environment, there are considerable uncertainties on the direction the macroeconomic scenario could take. This uncertain backdrop argues against extreme positioning between or within asset classes and is the main reason for our neutral asset allocation.

On the positive side, global growth surprised to the upside during the first quarter of 2023. This is perhaps best illustrated by the rebound in the composite purchasing managers' index (PMI) business surveys on both sides of the Atlantic since the start of the year (see Chart 1). Furthermore, we also saw very strong production figures coming from China. On the inflation front, headline inflation continued to ease over the quarter on the back of low energy prices, but core inflation generally remained stickier, forcing global central banks to tighten monetary policy further. In the meantime, job market data remained extremely solid. However, it is still unclear what effects the ongoing monetary tightening cycle will have. The collapse of Silicon Valley Bank and the subsequent stress in the banking system were good examples of these possible risks, implied by higher borrowing cost across the globe. As such, the continuing deep curve inversion in Fixed Income markets is still a reminder of the recessionary risks that the most abrupt monetary tightening cycle since the 1980s (see Chart 2) could potentially trigger.

As a reminder, 2022 confronted us with unfavorable market conditions during which low quality, value and cyclical stocks outperformed. We reviewed our portfolios accordingly, always keeping in mind our core philosophy of investing for the long-term and our preference for high quality companies. Despite these adverse conditions, we ultimately performed in line with our competitors. Our disciplined approach also paid off during the first quarter of 2023: In line with our investment style, we were underweight banks globally and had no exposure to European banks. The reason is that we have always been reluctant to invest heavily in companies whose business model is highly dependent on external cyclical factors such as interest rates and the credit cycle. This positioning clearly helped us navigate the troubled waters of bank failures in March. In addition, the stress in the banking system indirectly tightened credit conditions, leading to lower expectations for growth and interest rates. This environment was a tailwind for high quality as well as growth stocks, resulting in our portfolios to outperform nicely across all currencies in Q1 2023.

As of 31 March, the performance of the Mosaique balanced mandates was +3.03% for CHF (+0.58% vs. ARC), +3.96% for EUR (+2.19% vs. ARC) and +4.72% for USD (+0.90% vs. ARC).

Looking ahead to the rest of the year, we continue to think that our neutral positioning, combined with a tactical approach to enhance the asymmetric behaviour of our portfolios, is the best strategy in this environment. We implement this through hedging strategies, that enable us to be less sensitive to the downside risks while keeping our upside participation. We will also continue to actively manage our equity exposure, trimming positions at market highs, while increasing exposure during market downturns. We think that this cautious but active approach, together with a continued preference for high quality stocks, is the best way to navigate the current environment, until we have more visibility on what direction the economy will take.

Chart 1: PMI Composite data

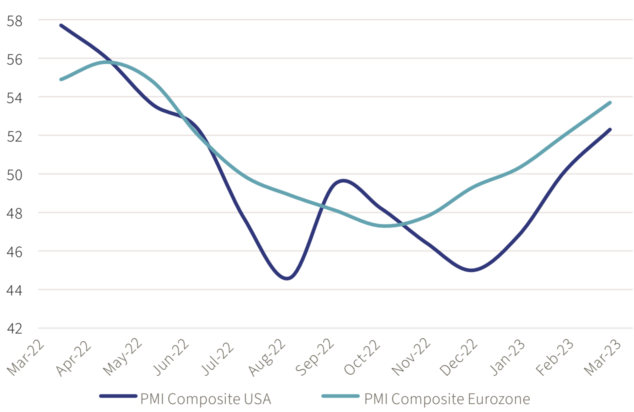
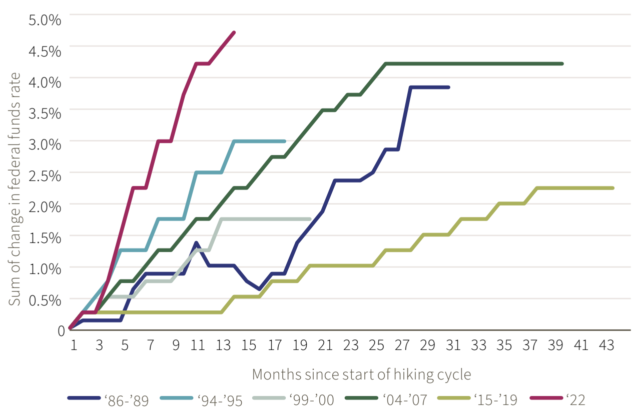


Chart 2: Fed rate hiking cycles in modern history



Source: Rothschild & Co Bank AG, Bloomberg

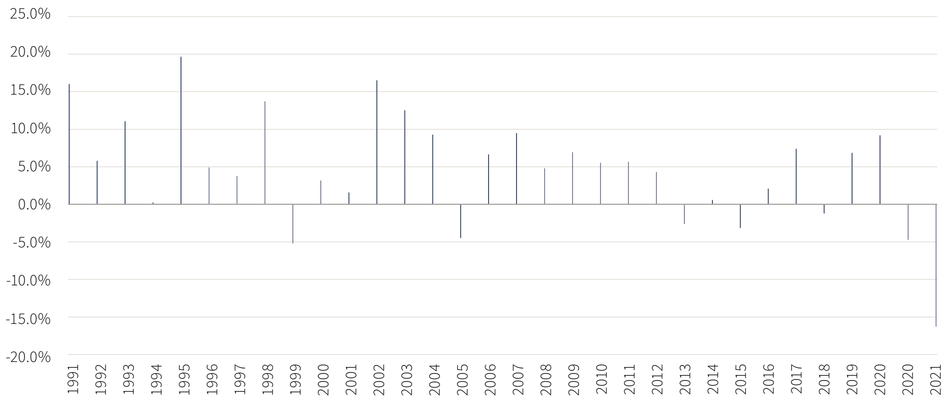
High volatility in the bond market as an opportunity?

Bastian Freitag

Portfolio Manager

In 2022, global bond markets suffered significant losses. The Bloomberg Global Aggregate global bond index lost 16.2%, the largest annual decline since its inception in 1990 (see Chart 1).

Chart 1: Yearly Total Return Performance of the Bloomberg Global-Aggregate Total Return Index Value Unhedged USD Index

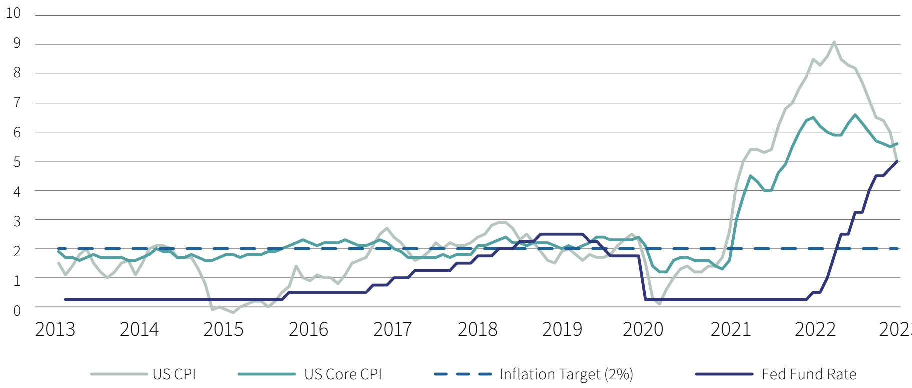


Source: Bloomberg, 31.12.1990 – 31.12.2022

What were the reasons for the bond crash last year?

The 2022 bond crash was mainly due to the sharp rise in inflation and central banks' response to fight inflation with tighter monetary policy which caused yields to rise and prices to fall (see Chart 2).

Chart 2: US CPI YoY, US Core CPI YoY, US Fed Fund Rate (Upper Bound) and FED Inflation Target Rate (2%)



Source: Bloomberg, 31.12.2012 – 31.03.2023

What should we expect to happen in the bond markets in the second half of 2023?

The stress in the banking sector is still high, however we do not expect a systematic "banking crisis" as in 2008/09. Therefore, the outlook for bond markets in the coming months will depend on two questions:

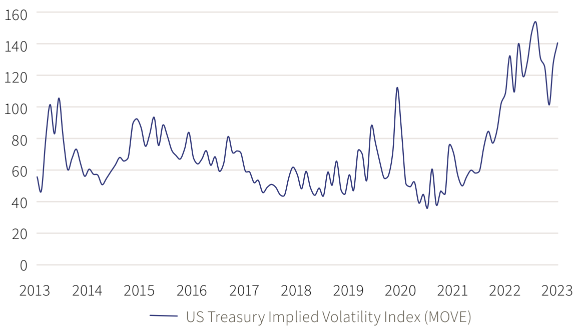
1. Do we see a recession or can it be averted?
2. Will inflation fall back to the central bank target of 2% or not?

This results in two different scenarios with corresponding effects on the bond market. A recession, and in particular a hard landing, would have a positive impact on government bonds, as in this scenario central banks would be expected to cut interest rates significantly. A soft landing, i.e. the avoidance of a recession, would have a negative impact on government bonds, as no interest rate cuts would be expected. However, in this scenario corporate bonds would benefit from a more positive economic outlook.

For central banks, the inflation outlook plays the key role, as it determines their ability to act. Only a rapid decline in headline and core inflation towards the central bank target of 2% would give central banks the necessary leeway to ease monetary policy if needed.

We expect volatility to remain high in the coming months until the uncertainty surrounding the inflation and economic outlook lifts (see Chart 3).

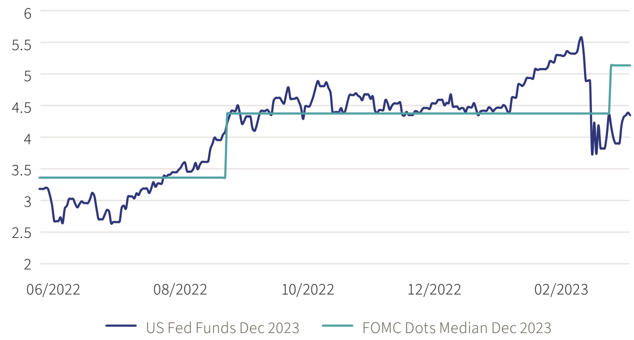
Chart 3: US Treasury yield curve weighted implied volatility index



Source: Bloomberg, 31.12.2012 – 31.03.2023

However, high volatility is not only a measure of risk, but also offers opportunities. While we are neutral to slightly underweight bonds in our asset allocation, the outlook has improved compared to 12 months ago due to higher yields. Although we continue to see the risk of weaker economic data due to monetary tightening, we consider the risk of a severe recession ("hard landing") to be low. Our outlook for inflation is also moderately optimistic and we expect headline inflation rates to fall sharply in the coming months. However, core inflation rates will remain above the central banks' target of 2% for some time yet. In our view, the Fed will therefore probably raise key rates for the last time in May and then pause. We believe that the current market expectations of falling rates until the end of 2023 are too optimistic, especially as they also contradict the expectations of the Fed's central bank members (see Chart 4).

Chart 4: Market implied Fed Funds per end of 2023 and FOMC Dots median for December 2023

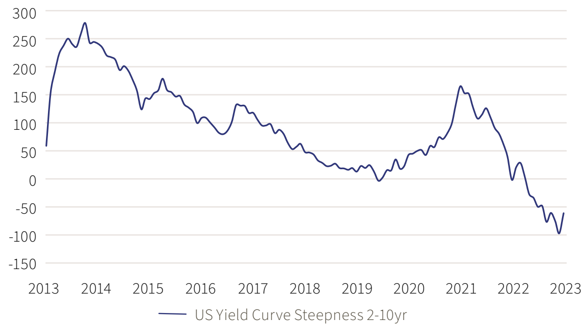


Source: Bloomberg, 30.06.2022 31.03.2023

How do we position ourselves in this environment of increased volatility?

We consider the potential for a decline in yields on long-dated bonds to be limited due to our macroeconomic outlook. This is the reason why we prefer short to medium-dated bonds, especially as the yield curve is strongly inverted (see Chart 5).

Chart 5: US Treasury yield curve steepness (10 years minus 2 years)

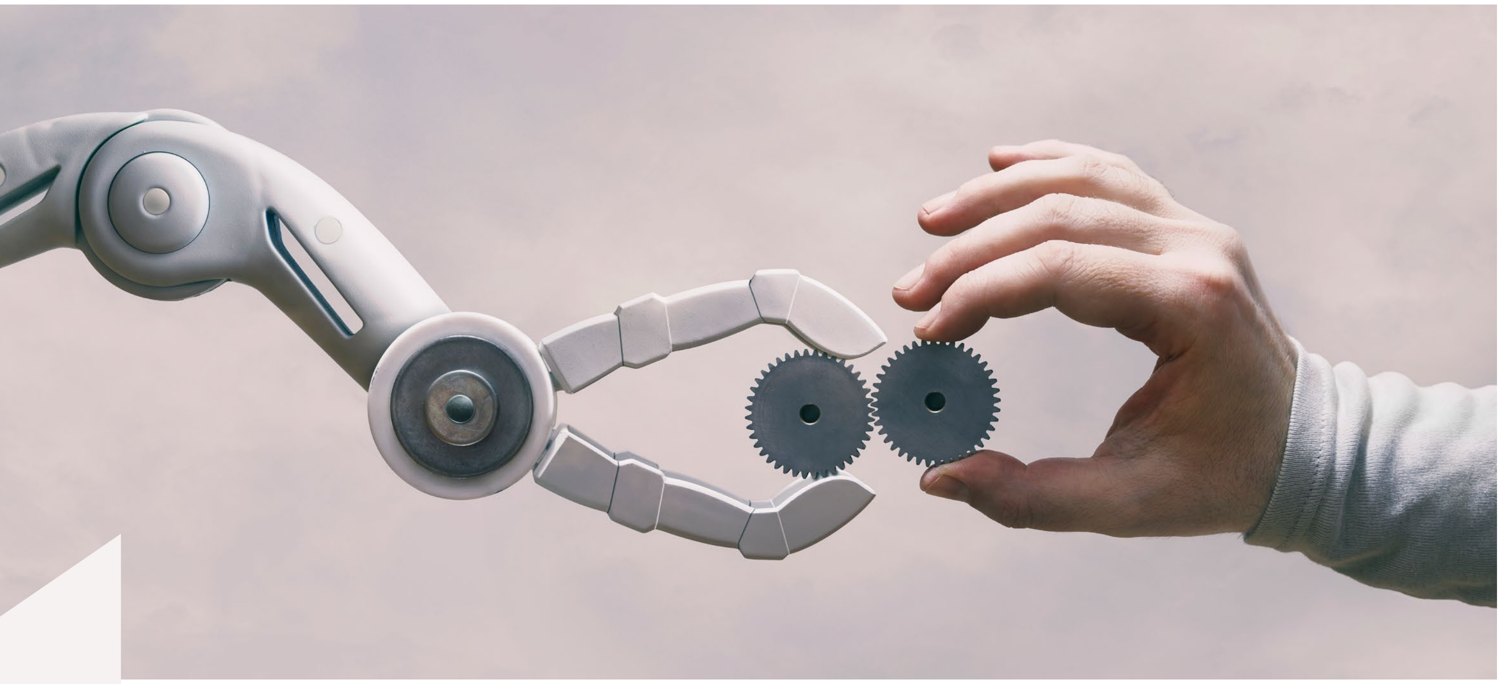


Source: Bloomberg, 31.12.2012 – 31.03.2023

Bonds with shorter maturities currently offer a higher yield than bonds with longer maturities. From a risk-return perspective, we therefore prefer bonds in the 1 to 5 year maturity range. In addition, we prefer corporate bonds to government bonds given our economic outlook.

We are currently also closely monitoring inflation-linked government bonds. As future inflation trends remain uncertain, this sub-segment of Fixed Income markets could offer an opportunity later in the year.

Artificial intelligence: The race to the future



Prof. Dr. Max Pumperla

Data science professor

Artificial intelligence ("AI") has revolutionised the way we live, work, and communicate. From voice assistants to self-driving cars, AI is everywhere. But what is the future of AI, and how will it change our lives?

To answer these questions and more, we sat down with Prof. Dr. Max Pumperla, a data science professor at International Hochschule in Hamburg, and software engineer at Anyscale in San Francisco. He's also the lead author of "Learning Ray", a book about the fundamentals of large-scale machine learning, and a contributor to the Ray project, on which models such as ChatGPT have been trained.

1. What is AI & what is AI not?

AI is a subfield of computer science. It aims to create intelligent machine to perform tasks which usually requiring human intelligence. AI systems use algorithms to analyse data, learn from it, and make predictions. AI can be used to perform a wide range of tasks, including image and speech recognition, or natural language processing. We see more and more promising applications as of late, and it's unlikely that the rate of progression will slow down anytime soon. That said, current AI systems still have limitations, as they are generally only able to take decisions derived from the data they are trained on. They often cannot account for all possible scenarios or exceptions, and sometimes exhibit biases or errors. A good mental model is to think of the current generation of AI systems as cognitive automation tools that assist humans and amplify their abilities. They're not acting autonomously and can't self-improve or replicate, as some dooms-day prophets might have you believe.

Interviewed by:
Laura Kuenlen
Investment Communications
21 March 2023

2. The world has been very excited about the new chatbot ChatGPT, with many talking about a breakthrough in the development of artificial intelligence and new possibilities for putting it to use. Did a new digital revolution begin in December 2022?

GPT-3, the base model underlying ChatGPT, turns three years old in June already. The fundamental building block in all such systems, the so-called transformer, has been in use since 2017. In other words, this breakthrough has been long in the making, but it's certainly worth calling it one. I think it's a big deal. While models like ChatGPT, or the newly released GPT-4, still have many flaws, even their most pessimistic critics can't deny one thing: they're extremely useful. Personally, I use these AI systems every day for coding, writing prose, text summarisation and other tasks. It's already inconceivable to me to go back to the old times, in which I didn't have such assistance. This is ultimately what technical revolutions always feel like. That same feeling will likely settle in for a larger consumer base, as the products around this technology mature enough. Even if we dropped all AI developments today, I think that the current state of technology would be enough to revolutionise most digital businesses substantially. Recent announcements such as Microsoft's 365 Copilot give you a glimpse of what's about to come.

3. What does AI change and how does it change the way we do business?

To paraphrase Amara's law (American scientist and futurist), we often overstate the impact of technology in the short-term and underestimate it in the long run. This is likely the case with the current wave of AI, too. Having said that, it's not only ChatGPT that should be in the spotlight. We've made considerable progress in translating speech to text, generating speech, images or even videos, and many other tasks. For instance, taking a picture of your fridge, asking a voice assistant to tell you which recipes could be cooked from the ingredients you have, and then getting detailed, interactive cooking instructions – that's not science fiction anymore. Also, the threshold of entering markets will decrease. For instance, with ChatGPT you don't need to be a programmer to code relatively complex apps. I half-jokingly claim that I was an ok programmer before, but with GPT-based tools I'm an army of one. In day-to-day business, expect these AI systems to help you ideate and write good first drafts of all sorts of reports, transcribe and summarise meetings, give you complete suggestions for email replies, help you do analytics in your Excel sheets or create data visualisations. In other words, a lot of the grunt work will be automated, and we're free to focus on more strategic topics. For me, it's already a game changer to be freed from so many menial tasks, and I don't think anyone will miss setting up a PowerPoint presentation. Beyond that, it's difficult to judge the long-term impact at this point. 2023 is going to be an interesting year.

4. There is a lot of hype around AI, to the point that AI will be driving our cars, cure cancer, take over all our jobs, and it's difficult to separate hype from reality. Where do you think AI is now?

On a high level, I find it useful to consider Daniel Kahnemann's two types of thinking – fast and slow . Humans are good at both quick thinking, such as visual or auditory perception (e.g., if you show me a picture of a cat, I immediately know it's a cat), and slower, more methodical thinking (e.g., contemplating where exactly the cat might have gone since breakfast). Current AIs are very good at fast-thinking tasks, and while we do have excellent, specialised AI systems that can solve slow-thinking tasks such as playing chess or go, the recent wave of so-called generative AI usually struggles when you want them to be precise. Therefore, when accuracy matters, we can't often defer to AI systems. To give you an example: If a pedestrian walking from left to right "vanishes" behind a small bicycle shed, a human driver observing this situation might reason that this pedestrian will show up to the right of that shed in a couple of seconds. But the pedestrian might also stop or turn around again. Human operators know to be cautious in these situations, but AI systems tend to struggle with them, for various reasons. Autonomous driving is a challenge, and this is just one example of why we have been seeing it get pushed to "next year" for years now. At the same time, there are indications that the latest generation of GPT-type models seems to understand "theory of mind" reasoning, the type of he-knows-what-she-thinks-what-they-think thought processes that we thought was exclusive to conscious beings like us. If that turns out to be true, which I'm still highly sceptical of, this could be a step towards many of the harder problems we face. Recent studies seem to suggest that it might in fact be the jobs of highly qualified workers that fall first. But even if many jobs get displaced faster than we thought, I'm optimistic that we can find new and more interesting things to do, as humans always have when faced with a revolution. I'm convinced we can make this a net positive for everybody.

> *"...we often overstate the impact of technology in the short-term and underestimate it in the long run."*

5. Are there any sectors particularly well placed to benefit from AI?

Any sufficiently digitised industry sector can benefit from recent AI advances. Instead of thinking about sectors, it might be better to think about the type of tasks to automate. Depending on what you want to do, there might be limiting factors such as data availability or security. For instance, you already find companies today detecting cancer from digital images, but those images are highly proprietary and private, which makes these types of companies hard to build. If you have access to high-quality data and clearly defined tasks that don't require too much interaction with the analogue world, chances are that you can automate at least parts of your business, today.

6. How do you think we will look back on this time in 30 years' time?

In my mind, there are two scenarios. Either we look back at this era of modern machine learning and view it as the point in time when AI took off and we never looked back. The other option is that the current techniques, which mostly rely on using ever more data and compute power, and not so much fundamental mathematical breakthroughs, will hit a wall. My take is that we're still missing at least one crucial step before we can truly reach human-level intelligence. I hope we get there in our lifetimes. In either case, I think it's likely that what's happening right now will be mentioned in the same vein as the internet – the time when AIs finally became useful for everyone.

View from the Investment & Portfolio Advisory Team

For investors looking at the impact of AI today, some sectors stand out: **eCommerce**, **technology**, and **healthcare**. Many larger, more resourceful eCommerce companies use AI for tasks such as product forecasting for the enhancement of customer satisfaction and warehouse optimisation. In the technology sector, AI can be used to enhance several key business components, including image recognition (many airports used intelligent thermal imaging cameras during the Covid-19 pandemic), cloud storage services, cognitive computer systems and language processing tools. Turning to healthcare, MedTech devices are deploying AI to improve monitoring and diagnostics (such as detection of infections on computed tomography scans of the lungs). Meanwhile, AI has been used to accelerate drug development and clinical research at reduced costs. AI's full effect on the business world is still little understood. It is nonetheless having a profound impact on the global economy. Recent research from PwC project world GDP could be 14%, or USD 15.7 trillion higher by 2030 because of AI.

Interested?

Please contact your client adviser for further information on products that best suits your needs.

R&Co4Generations: our approach to driving change

Claire Kramme
Executive Director of R&Co4Generations

R&Co4Generations was launched in 2021 and is Rothschild & Co's philanthropic group approach to empower future generations and protect our world. In the following interview with Claire Kramme, R&Co4Generations' Executive Director, we find out about the objectives pursued, the process of identifying partners and projects as well as the importance of meaningful impact. Claire joined Rothschild & Co in 2021 and has over 18 years of international experience of working on innovative social programmes with public and private organisations.

1. What was the motivation to launch R&Co4Generations?

Our main motivation and goal is to empower the next generations to become agents of change in social and environmental issues. In addition, R&Co4Generations also supports global flagship projects addressing social and economic inequalities as well as climate change to tackle issues of global significance across multiple geographies. Specifically, we prioritize projects that help young people develop skills, cultivate entrepreneurial mindsets, and encourage innovation.

2. What infrastructure is in place to ensure R&Co4Generations is set up for success?

R&Co4Generations is managed by a Management Committee co-led by Alexandre de Rothschild and Lionel Zinsou. This Committee is responsible for steering and implementing the Group's strategies as well as reflects the Group's geographical and business activities. Three non-executive members with expertise in the philanthropic sector also sit on the Committee. Furthermore, to ensure the effective implementation of R&Co4Generations' strategies and priorities at the local level, we have established five regional Committees. These Committees work in the organisation's best interest, choose and interact with local partners, oversee their own budget, as well as represent the program as ambassadors. Finally, R&Co4Generations is housed in The King Baudouin Foundation, and we benefit from their support and expertise.

Interviewed by:
Laura Kuenlen
Investment Communications
01 March 2023

3. How do you identify partners and projects?

It's either R&Co4Generations' staff or colleagues who will come up with ideas for charities to support. Obviously, we have some criteria that they need to meet, and we also run due diligence checks before onboarding them. Our main focus is to identify partners who share our values, have a clear understanding of our mission, and can demonstrate their impact. We also prioritize projects with medium to long-term growth potential and opportunities for our employees to engage, such as pro-bono consulting or volunteering for activities such as mentoring, tutoring, and one-off skills-based sessions. We are conscious that if we really want to make a long-term impact, financial support is not enough so we try to find other ways to get involved instead of "just" giving money (see Chart 1).

Chart 1: Our approach to driving change

4. Is there one project that sticks out in particular?

One project I like a lot is Bibliothèques Sans Frontières ("BFS"), known as Libraries Without Borders ("LWB") in English. BSF provides access to information and education for those who need it most, whether refugees in humanitarian crises or under-resourced communities in the developed world. Founded in 2007, the organization distributes books, develops innovative technologies, creates customized programs, and builds digital learning platforms in more than 50 countries. There's one programme in particular that we supported which is called Moota Andal ("vehicle of knowledge") (see Picture 1). The project is based in Cameroon: Although the violence from the campaign against Boko Haram in the Lake Chad basin region of Cameroon is far from over, displaced populations are beginning to return, and the region is starting to reconstruct its cities.This physical and cultural rebuilding will have to be done by the young people, so it's important that they have opportunities for education, training and employment. However, with a limited number of schools and libraries, young people have little access to information, and it limits their chance to discover the world and choose their own path. Within the framework of this programme, motorcycle libraries traverse the region to meet and educate communities by providing paper books, tablets, board games and artistic games. This is a good way to keep the connection with the local communities and lend books (sometimes only image books because they don't know how to read) to the families. So far, the programme has reached over 5000 people and it's also recognized as an informal way to inform people about the risk of Boko Haram.

Picture 1: Motorcycle library

Source: Bibliothèques Sans Frontières.

5. How can clients as well as employees get involved?

Our firm recognises the significant impact we can create by harnessing the varied skills, personalities, and experiences of our employees to benefit social purpose organizations (SPOs) and motivate young individuals. We take pride in our Advisory program, which extends free professional guidance to non-profits and social enterprises to enhance their productivity, profitability, and cost-efficiency. Likewise, we provide exceptional skills-based volunteering prospects across several locations, including career coaching, mentoring, and tutoring, to assist young people from underprivileged backgrounds in realising their goals. To provide you with one example: In Switzerland, we are participating in a mentorship programme called Jeunes@Work to create collaboration between professionals at Rothschild & Co and a young person who is looking for a job. The project has been very successful which is the reason why we are renewing the partnership for the 5th year. We have also launched some initiatives to involve our clients: Starting last year, we allocated the money usually used for client gifts to R&Co4Generations. In case Swiss clients want to contribute more actively, they can also make grants through R&Co4Generations to one specific project.

At a glance

R&Co4Generations launched in May 2021 and represents a change in how we practice philanthropy at Rothschild & Co, streamlining our global efforts into one group approach. This is designed to strengthen our global commitment and collective impact whilst delivering a unified perspective to employee engagement in all our locations and providing colleagues and clients with greater visibility of our philanthropic activities.

We are proud to share some key highlights from our achievements so far:

Nearly
62,000
beneficiaries aged 5 – 30 supported, primarily from less-advantaged backgrounds

84%
of our partners have helped to increase young people's leadership skills through improving their confidence, resilience and other soft skills

1 in 2
of our beneficiaries* are women and girls

*of those partners who completed our evaluation forms

42%
of colleagues engaged* with R&Co4Generations' activities

*involved in volunteering, giving and challenge events

50
partner organisations supported in 22 countries across five continents

3,648
hours of volunteering

860
acres of land protected (that's nearly 500 football fields)

387
not-for-profit organisations benefitting from our match funding

The reporting period is 31 June 2021 to 31 June 2022.

35 partners completed our evaluation forms as their projects had sufficient data to report on by the end of our reporting period. Of those, 20 shared data on the gender of their beneficiaries.

The preparation and coordination of the Progress Report involved members of Rothschild & Co Group entities, the King Baudouin Foundation and R&Co4Generations' partner charities.

More liquidity in illiquidity: next stage of the secondary market evolution

Can Oz

Investment Director

Key features

Private markets which are investments in debt or equity instruments that are not traded on public exchanges, are by design illiquid. These funds, which are commonly closed-end, are managed by general partners (GPs) and obligate limited partners (LPs) to remain invested for many years, without the possibility of exiting or liquidating. In the secondary market, investors can engage in two distinct types of liquidity solutions, namely LP-led and GP-led transactions, where stakes in long-term funds and individual private assets are traded before their contractual terms end.

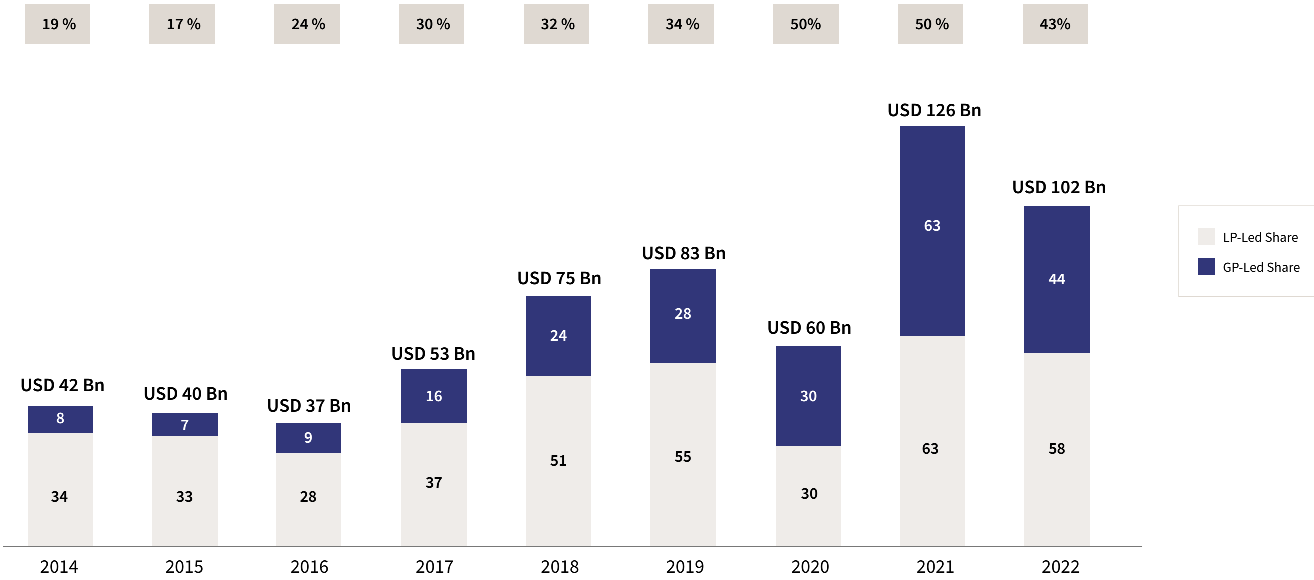
In a conventional LP-led transaction, LPs are the ones who initiate the sale of their interests in a fund, and a secondary buyer replaces them as a new LP in the fund. This type of transaction is typically used by LPs who need to exit the fund before the end of its term. In contrast, a GP-led secondary transaction is initiated by the GP, who seeks to transfer one or more assets from one fund to another. The goal of this type of transaction is usually to allow the GP to hold on to a prized asset for longer than the original fund's lifespan or to provide liquidity to limited partners.

Market growth

Having once been a limited market that was primarily utilised by distressed or forced sellers who wanted to offload positions, the secondary market has undergone a significant transformation. It has emerged as a dynamic and functional marketplace that attracts increasingly sophisticated participants who desire a more active hands-on approach to managing their investment portfolios.

Record transaction volumes in 2022 (Chart 1) highlight the growing importance of the private market secondary space.

Chart 1: Secondary Transaction Volumes 2017-2022 (in USD Billion)



Source: Jefferies LLC

New entrants continue to expand the LP universe, LPs are growing larger, and there is a continued increase in primary private assets in investor asset allocations, contributing to the market's expansion and need for structural solutions to meet different liquidity and value-creation objectives.

Renewed transformation

Innovative platforms that offer crucial optionality have become even more prevalent during the pandemic and rate-triggered market volatility, prompting private equity firms to re-evaluate their asset management strategies.

The recent market turmoil has caused caution, leading many buyers to seek quality investments with robust fundamentals. These buyers are looking for transactions where they can conduct thorough due diligence on underlying companies to identify resilient, growing businesses with attractive valuations. This flight to quality is seen in the shift away from large, diversified portfolios of LP interests, also known as "index" transactions in favor of smaller, often single fund sales or "mosaics".

Increasingly best-in-class GPs are entering the secondary market, facilitating this focus on quality. This has increased the overall size and quality of the market, creating a confluence of positive drivers such as more innovation in structural solutions and wider acceptance of these types of transactions with more participants than ever.

Rise of GP-led solutions

The GP-led market has transformed into an indispensable component in the toolkits of GPs to manage the liquidity of their funds and provide desirable strategic optionality for all stakeholders. These transactions allow managers to provide liquidity to existing LPs, while still holding their preferred assets and delivering attractive returns to incoming secondaries investors, resulting in a mutually beneficial scenario.

GP-led secondaries come in many forms, including fund restructurings, fund recapitalisations, portfolio strip purchases, single-asset solutions and GP spinouts. The constant across all of these transaction types is providing LPs and GPs alike with optionality.

GP-led secondaries are now viewed as a feasible alternative to trade sales, IPOs, or sales to other sponsors, providing a fourth exit option. The GP-led market is likely to continue its upward trend, already accounting to half of the total secondaries market, which in itself reached over USD 100 billion last year[1]. This represents about 1% of the USD 4 trillion addressable market of private equity funds, indicating that the GP-led market is likely to expand in the future, especially since only a fraction of GPs have completed such transactions.

Moving forward

While the secondary market has experienced substantial growth in recent years, it is still in its early stages, with indications that the space has tremendous growth ahead. The disruption of the financial crisis over a decade ago initiated waves of secondary market segmentation and innovation. Market participants continue to solve fundamental structural limitations in private market amid times of market dislocation through inventive structures that address the requirements of all stakeholders, catering to a wide range of objectives.

The expectation is that the secondary market's growth will extend beyond private market, with managers exploring new asset classes. The growth and proliferation will also increase its complexity, price discovery and competition.

Interested?

Please contact your client advisor for further information on products that best suits your needs.

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