

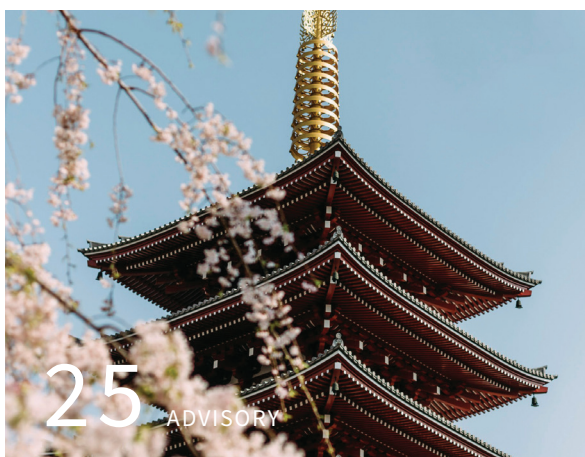
Insights

Spring 2024

Concordia, Integritas, Industria

This motto, chosen by the Rothschild family in 1822, captured both the character of the family and the way they did business.

These words have underpinned the way we do things for more than 200 years; they still stand at the core of our approach to our business, our clients, our people and our broad sense of responsibility.



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A close-up photograph of a George III table, which is a large, oval-shaped wooden table. The table's surface is covered with a detailed musical score, featuring multiple staves with notes and clefs. A violin is resting on the table, its body and f-hole visible. The wood of the table is a warm, light brown color, and the musical score is printed in black ink. The overall scene is a blend of music and furniture.

“It takes a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it.”

Nathan Mayer Rothschild (1777–1836)



Laurent Gagnebin

CEO, Rothschild & Co Bank AG

Dear Reader,

Two passions have always resonated deeply within me: music and finance. One is art, the other more worldly – but there can be parallels between the two. In both, a successful performance needs to mix just the right number of instruments in such a way that their sounds harmonise, their collective dynamics vary relevantly, and the various entrances and exits are in time.

Just like a conductor leads an orchestra, the wealth manager is guiding their client's portfolio through the ups and downs of financial markets, all with the aim of safeguarding wealth. Similar to a musician following the beat of a metronome to maintain tempo, the manager follows market signals and economic data to stay in tune with the evolving financial landscape. And as in music, the very best performances don't stick rigidly to the score or textbook, but interpret it, using experience to add strategic insight and nuance along the way.

Navigating the financial journey requires a delicate balance between understanding and interpreting financial cues, blending predictability with adaptability.

In the following pages of the Spring edition of Insights, we delve into the topic of wealth preservation and resilience from various perspectives. Much like a well-composed musical piece withstands the test of time, robust financial strategies withstand economic challenges, guided by the expertise of wealth managers who orchestrate portfolios with precision and adaptability.

I hope you enjoy the read!

Podcast

Listen to the podcast with Laurent Gagnebin, CEO Rothschild & Co Bank AG, and Laura K nlen, Investment Communications, as they delve into his career journey and the motivations behind our delisting.



Is it too quiet?



Kevin Gardiner

Global Investment Strategist

“Bond prices were historically low through 2022 and 2023.”

As this is being written, the most widely-watched index of US stock prices has not had a daily fall of 2% for more than a year, and set 22 new closing highs in the first quarter of 2024. The VIX, the so-called “fear index”, a measure of implied volatility and the cost of portfolio insurance, has been trending at pre-pandemic levels – even though interest rates are higher now.

Bond prices, usually much more stable than stock prices, were historically volatile through 2022 and 2023 as interest rates normalised and prices fell steadily, but they have settled down of late too. The major exchange rates, typically less volatile than stock indices but more so than bond markets, have remained not just relatively quiet, by their standards, but mostly directionless also.

Is it too quiet? Is this the lull before the next storm?

There is certainly plenty to worry about. Perhaps most visibly, the geopolitical backdrop remains fraught – and that’s with the US presidential election more than half a year away. Dreadful attrition continues in Ukraine and the Middle East. Potentially even more troubling is China’s ongoing claim on Taiwan. However, we have noted here before how geopolitical worries, important though they are, do not always have a big effect on the global economy and capital markets.

The re-election of a highly idiosyncratic US president might have fewer macro consequences than feared (and it is not yet a done deal). That was the case, after all, in 2016. Meanwhile, conflict in Ukraine has not had a lasting impact on energy prices; the more recent disruption to shipping in the Middle East has not yet reversed the recent slowing in inflation; and China remains patient (maybe it recognises that its own prosperity would be at stake were it to invade).

Currently, business surveys are weak, but not dramatically so. Harder data on output looks resilient. The US is strongest now, with Europe lagging and China disappointing. Later in the year, however, hard-pressed European consumers are likely to benefit as lower energy costs make themselves felt, while China’s negligible inflation is allowing policy to turn more supportive there.

Technical recession cannot be ruled out. Resumed banking stresses – and financial accidents generally – are always possible given how far interest rates have risen. But a more dramatic economic downturn still seems neither necessary nor likely.



If business can adjust to “old normal” levels of interest rates, however, as we think it eventually will, investors will need to adjust too.

Regional conflict, and even global geopolitical tension, may not always matter to impersonal capital markets, then: they do not always have a big impact on economic activity and discount rates.

The business cycle surely does matter, however, and will affect those things. And on this count recent stability does feel a little too good to last – not because we expect the worst, but because we know that the consensus often does.

That consensus recently has been confident about the “soft landing” and the prospect of lower interest rates. Even if both do eventually materialise, we would be surprised if that confidence were not to be tested again in the meantime.

Economic indicators rarely move in a straight line, and after a relatively stable run for the major business surveys in particular, an erratic reading may be overdue. There are plenty of pundits and a hungry news industry waiting to extrapolate a weak outcome into global recession, or a strong one into resurgent inflation and continuing high (or even higher) interest rates.

“Economic indicators rarely move in a straight line.”

Even if the economic data remain placid, it is still hard to believe (even for more positive advisers like us) that the rapid normalisation of interest rates since 2021 will not have caused a financial accident or two. There is no shortage of potential casualties, including for example: commercial real estate; regional US banks; the shadow banking sector; private equity and debt markets. Perhaps the debris simply has yet to surface – and when it does, again, it may be seized upon as a harbinger of the next financial crisis.

The question then is not so much whether volatility will rebound at some stage, but rather how we should respond when sentiment does wobble. Our thinking currently is that it might prove as much an opportunity as a threat.

We have several reasons for not expecting the worst:

- Demand-led inflation has faded and supply-side constraints have eased: interest rates and (in Europe) energy prices can become tailwinds, not headwinds.
- Economies have not necessarily gone structurally “ex growth”. Debt, demography and depletion may be manageable. Technology is on the move, most visibly in the world of data-processing, but perhaps most profoundly in the energy space.
- Systemic financial risk may be containable. The big banks seem well-capitalised, and able to absorb some smaller competitors, and real estate and private market write-downs. Mediocre hedge fund returns suggest shadow banking leverage is not especially high.
- Public valuations are not outlandish – whether those of stocks or, unusually in recent years, those of bonds.

Arguably, a constructive stance should be the default. Confidence is often fickle, and markets’ signal-to-noise ratio is low. There is usually some sort of “wall of worry” out there – though its component bricks vary – yet most of the time, economies and markets function.

There have of course been costly – but mostly brief – exceptions, and if we see such an event loom into view now we will certainly change our tactical advice. But to spend most of the time positioned for one is counter-productive – or at least, it has been to date.

In fact, despite a huge doomsday and “black swan” literature, long-term investors historically would arguably have been better off systematically selling portfolio insurance, not buying it. To implement such a strategy, however, requires an appetite and capacity for risk – and access to wholesale derivative markets – that few private investors enjoy.

Podcast

Listen to the podcast with Kevin Gardiner, Global Investment Strategist, and Laura Künlen, Investment Communications, as they delve into Kevin’s journey to becoming an economist.





Adapting to Market Shifts



Dr. Carlos Mejia

Chief Investment Officer

“The market is now aligned with our assessments and expectations for a decline of interest rates in 2024 have tempered significantly.”

Successfully navigating financial markets requires both adaptability and the ability to separate valuable information from the noise. Currently, our focus is on inflation, interest rates and economic activity.

Since last year, we have maintained the view that interest rates would likely stay “higher for longer” due to the resilience of the global economy and the easing of inflationary pressures, although inflation rates remain elevated compared to central banks’ targets. The market is now aligned with our assessment and expectations for a decline of interest rates in 2024 have tempered significantly. Recently, we have seen a change in the rhetoric of central banks, signalling a potential decline later this year. However, only the Swiss National Bank (SNB) has taken action, aiming to manage the strength of the Swiss Franc amidst very low inflation levels.

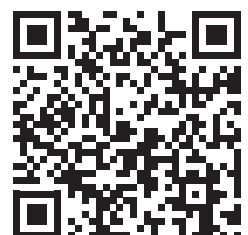
The bond market has reacted to this shift in expectations: We have seen some increase in volatility, and, at the time of writing, 10-year yields have risen by 50 basis points in the USA and UK, and by 40 basis points in Europe, compared to the start of the year.

Despite geopolitical uncertainties, such as the upcoming US presidential election having minimal impact on capital markets thus far, historical trends suggest that unless such events significantly impact economic activity or interest rates, markets tend to remain largely unaffected. The resilience of economic activity, particularly evident in stabilised business surveys, not only contributes to low unemployment levels but also boosts corporate profitability and investor sentiment in the stock market.

Given these considerations, we remain steadfastly loyal to our commitment to long-term investment goals, prioritising resilience and wealth preservation. We filter out short-term macroeconomic moves as noise, focusing instead on enduring principles and objectives. While we carefully consider these factors in our asset allocation meetings, our primary focus remains on securing our clients’ long-term financial well-being.

Podcast

Listen to the podcast with Dr. Carlos Mejia, CIO Rothschild & Co Bank AG, and Laura Künlen, Investment Communications, for insights on life at the investment helmet.





Did you know?

The name *Mosaïque* refers to art made from the assemblage of small pieces that create an image that is best seen as a whole. The beauty of the overall piece is the focus, but every single element is carefully selected to create that image. The name also makes reference to the rhododendrons cultivated by Lionel de Rothschild in the Exbury Gardens, Southampton, UK, in the first part of the 20th century.

Exploring the Mosaïque Investment Approach

A strategic approach to portfolio construction is crucial for ensuring both resilience and alignment with long-term investment objectives. In the following interview with Gianluca Ricci, Head of Portfolio Management, we delve into one of our flagship strategies, Mosaïque, and explore its potential benefits for investors. Gianluca Ricci joined Rothschild & Co in 2014. He and his team have been managing the strategy since its launch in 2017.

Q1. What's the Mosaïque investment approach?

The Mosaïque strategy is all about managing wealth in a comprehensive way. We look at every aspect of a person's financial situation, focusing on how to allocate assets strategically and manage risks carefully. We're in it for the long term, so we start by looking at the big picture of the economy. This helps us understand what's driving economic growth and how that affects the stock market. We believe in spreading investments across different types of assets, regions, and industries, with a preference for companies that are strong and have pricing power. We also take environmental, social, and governance factors (ESG) into account when making investment decisions. This means we choose investments that match our clients' values and are sustainable for the future.

Q2. What client needs do we address?

Navigating the complexities of wealth management requires a combination of foresight, strategy, and adaptability. In the pursuit of preserving and growing wealth, clients seek not only financial expertise but also a partner who understands their unique goals and preferences. We acknowledge the diverse requirements of our global clientele and have developed the Mosaïque strategy to address those needs. Mosaïque serves as a comprehensive framework to ensure consistent capital appreciation, diversification across various asset classes, and the safeguarding of liquidity (Chart 1).

Q3. What types of clients do we cater to?

Our clients come from different backgrounds and have different goals, but they all want to protect and grow their wealth. Some pay close attention to what's happening in the world, while others focus more on their specific investments. Recognising these preferences, the Mosaïque strategy offers a tailored approach that caters to the unique needs of each client segment. Clients can select from a range of risk profiles (conservative, conservative-balanced, balanced, growth), currencies (USD, EUR, CHF, GBP), and even opt for equity-only portfolios.



Gianluca Ricci

Head of Portfolio Management

Chart 1: Understanding our clients' needs



Q4. Can you talk more about the ESG principles?

At Rothschild & Co, we're committed to responsible investing. We focus on making investments that not only benefit our clients but also contribute to a more sustainable world. We pay close attention to ESG risks, both for ourselves and for our clients. We have clear investment policies and procedures in place at the group level, and our investment entities follow additional initiatives and frameworks. Our Mosaïque strategy is all about supporting the transition to a more sustainable and fairer world, providing investments that match our clients' values. We keep up with changes in regulations and avoid

investing in activities that could be controversial. We look for companies that are serious about reducing their carbon emissions and prefer investments that have a positive impact on the environment and society. We also aim to have more of our investments focused on sustainability and to reduce our carbon footprint compared to other investments in the market. We're transparent about our green investments and meet disclosure requirements. Additionally, when we manage portfolios that include stocks, we use our voting rights to support responsible practices, considering both financial returns and their impact on society and the environment.

Q5. How do you make equity investment decisions?

Our investment process begins with a careful look at the wider economic and geopolitical landscape, as well as the current business cycle. Each month, our Asset Allocation Committee meets to decide how to allocate assets across different asset classes: e.g., stocks, bonds, and cash. After this initial assessment, we decide where to invest tactically, considering

“Our investment process begins with a careful look at the wider economic and geopolitical landscape.”

different regions and sectors. When choosing stocks, our team of analysts works closely together in a shared workspace. This collaboration helps us pick the best companies, which is crucial for how well our portfolios perform. They focus on quality businesses that will do well over the long term. Our decision-making process involves a blend of proprietary models and external sources. We're committed to responsible investing, so we steer clear of investments not meeting environmental, social, and governance criteria. This approach reflects our dedication to delivering value to our clients while keeping high standards in our investment practices.

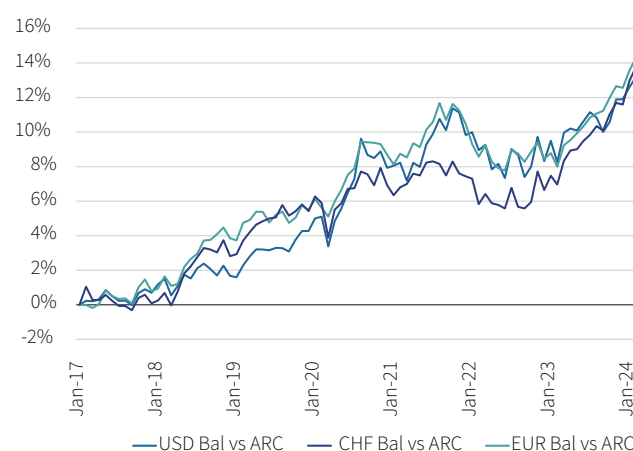
Q6. And what about the Fixed Income investment decisions?

The Asset Allocation Committee integrates the allocation to Fixed Income assets into its decision-making process. Additionally, our portfolio management team comprises Fixed Income portfolio managers responsible for executing the asset allocation decisions. They consider a variety of bonds, including those issued by governments, corporations with strong credit ratings, and financial institutions. We meticulously choose our investments, taking into account factors such as the issuer's creditworthiness, bond type, and regularly updated financial data. Our credit portfolios are managed using a standardised process, which involves evaluating financial ratios, earnings updates, and insights from third-party experts. Additionally, we factor in environmental, social, and governance considerations, steering clear of investments in industries like thermal coal or controversial weapons. Our portfolio consists of around 200 issuers. We keep a close eye on changes in credit ratings, any updates to our exclusion policy, and other corporate events that might affect our investment decisions.

Q7. How has the strategy performed?

Since the inception of the Mosaique strategy in 2017, our track record speaks volumes. Through effective tactical asset allocation and rigorous security selection, we have consistently outperformed peers. Despite challenging market conditions, our portfolios have demonstrated resilience and delivered strong returns, underscoring the robustness of our investment approach. Our performance is a testament to our commitment to delivering value to our clients and guiding them towards their financial objectives (Chart 2).

Chart 2: Relative Performance to ARC¹ (Jan 2017 - Mar 2024)



ARC Figures are estimates until approx. one month after quarter end.

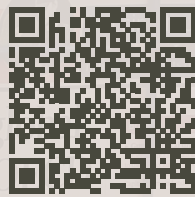
[1] ARC Private Client Indices are performance numbers by investments managers for discretionary mandates, here for Balanced investment strategies in CHF, EUR and USD, respectively

Market Perspective

Want to read more about the current macroeconomic environment?

Our flagship strategy publication *Market Perspective* gives you the latest market and macro-economic insights from our Global Investment Strategists and explains what they mean for your portfolios.

www.rothschildandco.com/insights



The Benefits of European Corporate High Yield Bonds

Investors stand to potentially gain from the appealing yields and robust opportunities in the European high yield (HY) market. Notably, for the first time in many years, the HY sector is truly living up to its name (Chart 1). In the following article, Bastian Freitag, Portfolio Manager and Bond Analyst, delves into the rationale behind incorporating HY bonds into a portfolio, elaborating on the diversification benefits they may provide, and sharing insight into the outlook for 2024.



Bastian Freitag

Portfolio Manager, Fixed Income

Chart 1: Long-term Yield of European High Yield Bonds



What are High Yield bonds?

Functionally, HY bonds share common features with most fixed-income securities, representing a loan from investors to the issuing company, with repayment of the principal at maturity and payment of an annual coupon (Chart 2). HY bonds come with heightened default risks compared to investment-grade corporates, prompting investors to seek higher yields¹ when lending to such issuers.

Over the long term, HY bonds demonstrate a lower correlation to investment grade (IG) credit (0.38) than to equities (0.45) and no correlation to government bonds (-0.02) (Chart 3).

HY bonds, besides higher default risks, entail heightened liquidity risks relative to investment-grade credits, particularly during periods of increased volatility, and especially in comparison to government bonds. HY bonds are also less sensitive to interest rate changes than government bonds, primarily because of their shorter duration. On average, HY bonds have a duration of around 3.0 years, whereas IG bonds have a duration of about 4.4 years, and government bonds have a duration of 7.2 years (all on Index level).

Chart 2: Key Characteristics of High Yield Bonds since 2004

20 Years	High Yield	Equity	Investment Grade	German Government Bonds	Cash (Overnight rate)
Yield (p.a.)	6.6%	7.2%	2.8%	2.3%	0.9%
Volatility	4.2%	15.0%	2.5%	3.9%	0.1%
Sharp ratio	1.34	0.42	0.75	0.34	0.00

Source: Rothschild & Co, 31.03.2004 - 31.03.2024. Past performance is no guarantee of future results.

[1] Yield is defined as the income return on investment. This refers to the interest or dividends received from a security and is usually expressed as an annual percentage based on the investment's cost, its current market value, or its face value.

Chart 3: Correlations since 2004

	HY EUR	Equities EUR	IG EUR	German Government Bonds	Overnight EUR
HY EUR	1.00	0.45	0.38	-0.02	-0.03
Equities EUR	0.45	1.00	-0.04	-0.30	-0.02
IG EUR	0.38	-0.04	1.00	0.79	0.02
German Government Bonds	-0.02	-0.30	0.79	1.00	0.03
Overnight EUR	-0.03	-0.02	0.02	0.03	1.00

Rothschild & Co, 31.03.2004 - 31.03.2024. Past performance is no guarantee of future results.

High Yield bonds in balanced portfolios

Investors can benefit from allocating to a European high yield strategy in several ways. As mentioned above, this approach provides the potential for appealing risk-adjusted returns when compared to equities. Additionally, it offers the prospect of more stable income streams with reduced volatility.

This positive correlation arises from several factors:

- HY bonds are closely tied to the business performance and underlying fundamentals of the issuing companies and with this to the business cycle in general (similar to equities).
- The spreads² on HY bonds are negatively correlated with interest rates.

In balanced portfolios, investors often lean towards asset classes like IG credit, government bonds, or cash to offset market volatility. However, such an approach may result in sacrificing potential returns. HY bonds offer an alternative strategy, enabling volatility reduction without significant compromise on potential returns (Chart 4).

One notable difference between HY bonds and stocks lies in the consistent income stream from interest payments and the predictable maturity value. This predictability allows investors to estimate overall returns, assuming the issuer doesn't default. Therefore, unlike stocks, which mainly focus on capital

What makes a bond high yield?

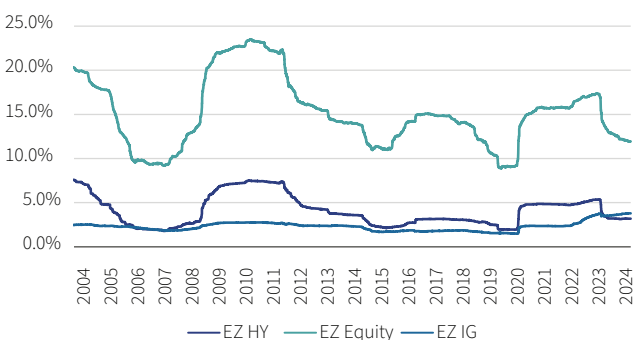
High-yield bonds, also known as junk bonds, are bonds that offer higher yields due to their lower credit ratings compared to investment-grade bonds. These bonds have credit ratings below BBB- from Standard & Poor's and Fitch, or below Baa3 from Moody's. Credit rating agencies assess bond issuers and assign ratings based on their ability to meet interest and principal payments as scheduled. Issuers deemed to have a higher risk of defaulting on these payments are assigned ratings below IG, compelling them to offer higher coupons to attract investors.

appreciation, bonds offer reliable income. The central banks' moves to combat inflation through rate hikes have reshaped market dynamics, leading to a scenario where the volatility of HY bonds has dropped below that of IG bonds since the beginning of the hiking cycle. This shift is primarily attributed to the sharp rise in interest rates in 2022 and 2023. IG credit was more heavily weighted due to the higher duration compared to HY.

Why invest in European High Yield bonds?

Despite ongoing weakness in the Eurozone's economic conditions, signs such as stabilising Manufacturing PMIs³ and potential rate cuts by the ECB starting in summer suggest a potential upturn of the economy in the latter half of 2024 and in particular in 2025. While yields continue to be historically high, the European HY market presents an attractive investment opportunity. Recent economic indicators pointing towards a soft landing in Europe, combined with restrained new issuance and robust investor inflows, reinforce our positive outlook on European HY.

Chart 4: Rolling 3-year Annualised Volatility HY vs. Equities



[2] A yield spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers, or risk levels.

[3] The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.



The history of The Rothschild Archive – Understanding our past to inform the business of today

The Rothschild Archive, located in London, holds the business records and personal papers of the Rothschild family, mainly focusing on N.M. Rothschild & Sons in London and MM de Rothschild Frères in France. Founded in 1978, it's dedicated to preserving the family's significant impact on global history. In the following interview, Melanie Aspey, Director of The Rothschild Archive, reflects on its journey and the broader legacy of the Rothschild family.

Q1. Could you share with us the story behind the founding of the Archive and how it evolved over time?

Archives are essential for preserving the history of businesses and individuals. In 2024, The Rothschild Archive Trust celebrates its 25th anniversary, founded by Sir Evelyn de Rothschild in 1999 to protect the family's heritage. Perhaps prompted by the collapse of the Baring brothers' business in 1995, Sir Evelyn established the Trust to safeguard The Rothschild legacy. His foresight and dedication stemmed from a profound reverence for the family's legacy, instilled in him by his late father, Anthony. Initially conceived to oversee the records of N.M. Rothschild & Sons, the Trust's remit expanded organically as various branches of the Rothschild family recognised its value as a custodian of collective memory. This unexpected evolution transformed the Trust into a repository of diverse family legacies, each thread contributing to the rich tapestry of the Rothschild narrative. Beyond the confines of genealogy, the Trust's holdings illuminate the family's multifaceted contributions to philanthropy, the arts, and society at large, enriching our understanding of their enduring legacy. As an educational charity, the Trust also welcomes scholars worldwide, fostering collaboration and insight into its collections. Through this exchange of knowledge, the Trust continues to honour Sir Evelyn's vision, ensuring that the Rothschild legacy remains an enduring source of inspiration and enlightenment for generations to come.

Q2. As the Director of The Rothschild Archive, how do you preserve and showcase the rich history and legacy of the Rothschild family?

We've been extraordinarily fortunate with the generous contributions from various branches of our family. It's a significant responsibility to ensure the physical preservation of these items. While the materials we receive are typically in



Melanie Aspey

Director of The Rothschild Archive

“Archives are essential for preserving the history of businesses and individuals.”

good condition, maintaining the correct temperature and relative humidity is essential. However, archives are more than just documents; they are repositories of human stories. They narrate the lives of those who created them, making them integral to our history. Engaging with donors allows us to unravel these personal narratives, not only preserving their legacies for future generations but also benefiting our business and broader family network. Our archive's strategic placement at New Court, right by the entrance of our main building in London, symbolises our confidence in its significance and colleagues from other business archives often express envy at our setup. Incorporating historical elements into contemporary practices ensures that our past remains relevant. Take, for instance, the Five Arrows symbol featured on our websites, which symbolise the five brothers, sons of our

business's founder in 18th-century Frankfurt. It was their chosen emblem, representing unity and strength. Alone, an arrow can be broken, but together, a bundle of five arrows remains unyielding. These enduring symbols, passed down through generations, serve as a testament to our shared history and values. They bridge the gap between past and present, reminding us of the collective journey that has brought us to where we are today. It's a profound connection that resonates through time, anchoring us to our roots and guiding us forward with purpose.

Q3. Can you share any interesting anecdotes about the Rothschild family's journey that exemplify their resilience and long-term perspective?

Let me share two poignant stories—one from Britain and the other from France. Firstly, we look to Anthony de Rothschild, a stalwart figure in British history. Despite facing challenges after the First World War, including the loss of senior partners and financial crises, Antony held firm, guided by the family's enduring principles of unity and perseverance. His unwavering optimism and philanthropic spirit, particularly in aiding German Jews during the 1930s and 40s, showcase the intertwining of business and humanitarianism within the Rothschild legacy. In France, the nationalization of the French Bank in 1982 presented another trial for the family. However, David de Rothschild and his cousin Eric de Rothschild refused

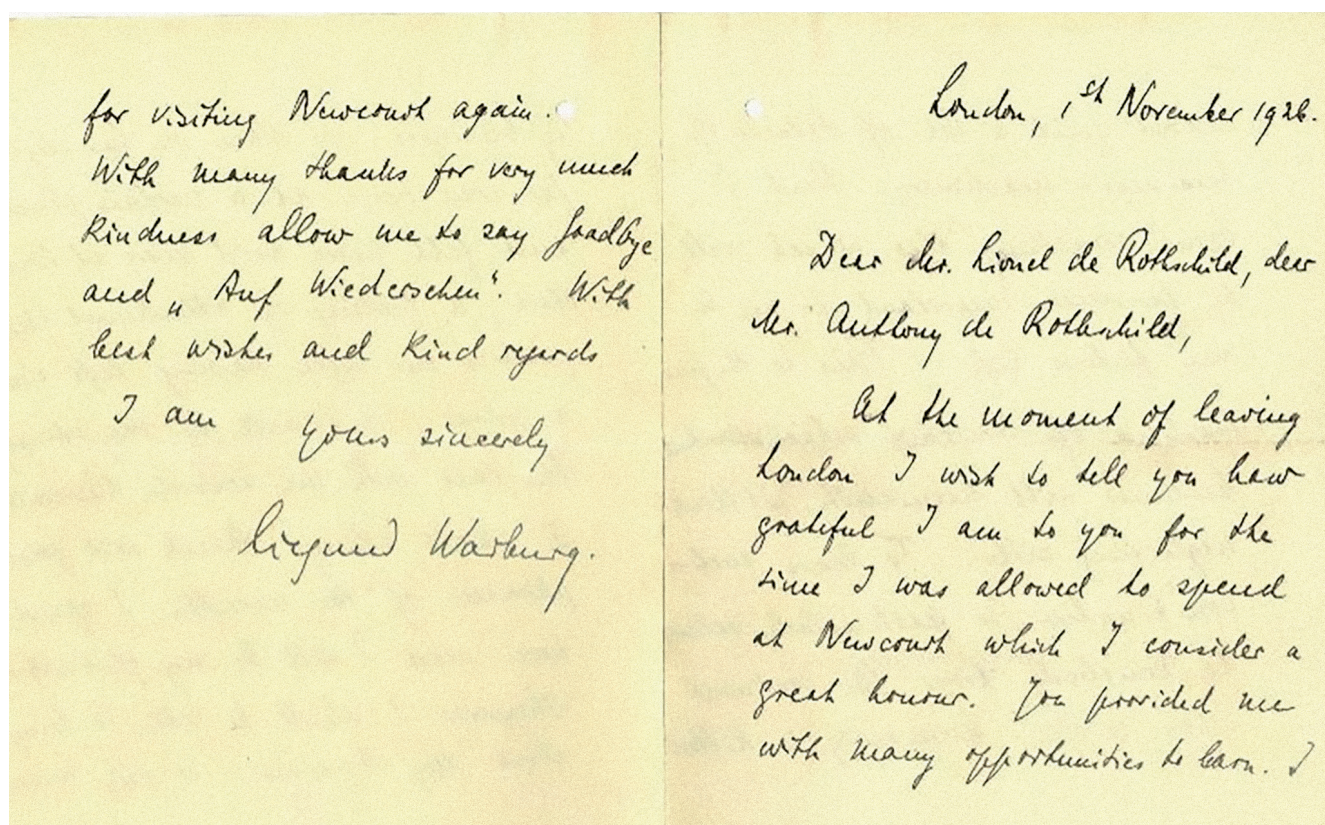
to succumb to adversity. Instead, they embarked on a journey of renewal, symbolising the Rothschild lineage's resilience and adaptability. Today, as they inaugurate new office premises, the Rothschilds stand as a testament to the power of perseverance and faith in the face of uncertainty.

Q4. Looking towards the future, how do you envision the evolution of The Rothschild Archive?

The digital frontier presents both challenges and opportunities for archiving. We are focused on leveraging digital platforms to enhance accessibility and engagement, ensuring the Archive remains a dynamic resource for education and inspiration. Furthermore, fostering connections with younger members of the Rothschild family and incorporating contemporary stories into our collection are key strategies. These efforts are aimed at ensuring the Archive not only preserves the past but also evolves with the present, making the Rothschild legacy a living, breathing narrative that continues to inspire.

Q5. How do you think the values upheld by the family can inspire and guide businesses and leaders also in today's ever-changing world?

Archives hold the undeniable truth—they are tangible evidence of history. When I share pieces of paper with visitors that document the business and family ethics, I often remark, somewhat light-heartedly, that these sentiments weren't



Warburg Letter, November 1926

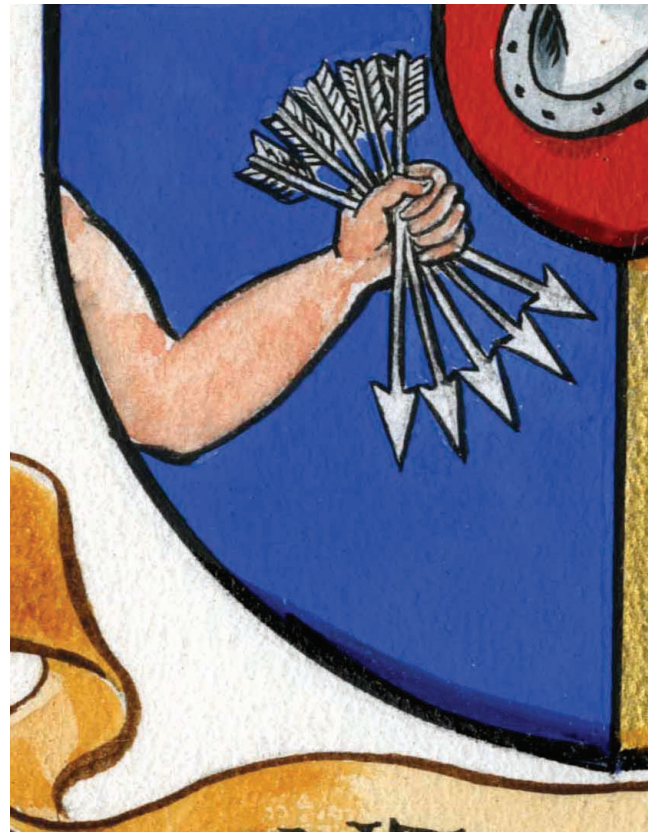
concocted by a marketing team; they reflect genuine perceptions. One remarkable letter from S.G. Warburg to Anthony de Rothschild encapsulates this sentiment beautifully. Warburg, having completed an internship at New Court in London, lauds the fine tradition of combining business with humanity, without neglecting either. This message, resonant for business and political leaders alike, underscores the essence of success and respect within the Rothschild legacy. It's a truth borne from personal experience, immortalised in ink—an invaluable insight preserved within our archives, and proudly displayed for all to witness.

Q6. Your dedication to The Rothschild Archive's mission is evident. As we look forward, what are your hopes for the Archive?

My hope is that The Rothschild Archive continues to be a source of knowledge, inspiration, and reflection for generations to come. By embracing new technologies and methodologies, we can ensure the Archive remains a relevant

“Alone, an arrow can be broken, but together, a bundle of five arrows remains unyielding.”

and engaging resource. I also hope for increased collaboration with educational institutions and the broader public to expand our reach and impact. Ultimately, my vision is for the Archive to continue to grow as a testament to the Rothschild family's rich legacy, embodying the principles of resilience, innovation, and philanthropy that have defined their story. While they often manage smaller amounts of money themselves, such as through online trading, they seek professional advice from a seasoned banker when dealing with substantial investments. They also aspire to grow as individuals and expect timely feedback which we are able to provide them with.



English arms granted to the first Lord Rothschild in 1885.



Start planning today!

Retirement marks a significant milestone in everyone's life, sparking fundamental questions about one's financial future. In the following interview with Dr. Thomas Bamert, Head Wealth & Pension Planning at Rothschild & Co Bank in Zurich, we delve into the uniqueness of the Swiss pension system, explore our strategic partnership with PensExpert AG and discuss our tailored approach to guiding clients in shaping their financial destinies.

Q1. Thomas, you joined Rothschild & Co in February 2023. What motivated you to do so and what has your first year been like?

I chose to join Rothschild & Co because I wanted to work for a family-owned bank that's truly committed to long-term investing. This commitment inherently underscores a significant focus on pension assets. During my first year, I focused on enhancing the pension solutions for our Swiss clients and broadening our advisory scope to cover non-investment areas such as pensions, wealth- and succession planning. I was grateful to experience substantial support from our client advisors during this year, as they actively collaborated with me and engaged me in discussions with their clients and prospective clients.

Q2. At the same time that you joined, Rothschild & Co also entered into a strategic partnership with the renowned pension consultancy PensExpert AG. Could you give our readers some more background on this collaboration?

PensExpert AG is one of the leading providers of tailored pension solutions in Switzerland and Germany and specializes in comprehensive pension solutions tailored for both corporate entities and private clients. Their services cater primarily to high-income individuals seeking optimal tax strategies leveraging Switzerland's advantageous tax benefits on pension contributions. For corporations, they offer tailored supplementary pension plans, such as 1e-plans (Chart 1), designed to reward and retain key employees. Private clients benefit from personalised investment strategies for their vested pension funds, aligned with their risk tolerance and synchronized with their overall financial goals. The company partners with a select group of banks and has recently added Rothschild & Co Bank AG. This strategic partnership enhances our capacity to deliver unparalleled expertise in investment management and wealth planning, ensuring our clients receive the highest level of service and satisfaction.



Dr. Thomas Bamert

Head of Wealth & Pension Planning

Q3. The Swiss pension system is quite unique. Can you explain to our readers why that is?

Since 1972, Switzerland has embedded the three-pillar pension system within its Federal Constitution (Chart 2). This system relies on the interplay between state-backed basic livelihood protection, occupational benefits insurance (involving employers), and tax-favoured private pension arrangements. The first pillar, state-funded, ensures basic subsistence, while the second pillar, managed by employers, offers tax-saving opportunities, making it appealing for Swiss-based entrepreneurs and executives. The third pillar emphasizes personal responsibility, enabling individuals to create a private pension with state support. Overall, it is considered one of the world's most reliable pension systems.

Q4. How does our offering fit in?

Switzerland's second pillar, the occupational benefits insurance (German: BVG, French/Italian: LPP) or "pension fund" (Pensionskasse), complements disability insurance (DI) benefits, ensuring lifestyle maintenance in retirement, and death cases. Employees earning above the BVG/LLP entry threshold (for 2024 CHF 22'050) are automatically enrolled in their employer's chosen pension fund through BVG/LPP deductions. This comprehensive insurance, coupled with mandatory pension coverage under Pillar 1, includes additional protections like occupational accident insurance, daily sickness benefits insurance, and vested benefits

Chart 1: What is a 1e pension plan?



* Employer contribution at least 50% | 25-34 years: 7%, 35-44 years: 10%, 45-54 years: 15%, 55-65 years: 18%

Since 2006, pension funds have been able to offer their insurees the choice between up to 10 investment strategies depending on their individual risk profile, for the share of annual salary exceeding 132'300 CHF. These supplementary pension plans are called "1e", referring to the first article of the BVV 2 amendment. Insurees are able to determine their investment strategy themselves and, similarly to the 3rd pillar, to save in their own fund pool. This eliminates the redistributive effects existing in basic pension plans, currently exacerbated by demographic and interest rate trends.

institutions within the second pillar. However, Switzerland faces challenges due to the continuous global increase in life expectancy, which rises by 0.5 to 1.5 years every decade (based on the life expectancy for a 65-year-old individual). This demographic shift, with fewer young adults and more elderly individuals, widens the generation gap. Over the years, the number of pension funds has been decreasing, leading to the growth of collective and joint schemes. We believe investment decisions for retirement assets should not solely rest with pension funds or vested benefits foundations, empowering each insured individual to maximize their pension value. To give you an example: One of our clients, a CEO of a company, retired at the age of 55. While he had already made investments in a pension fund, our consultation revealed the possibility of purchasing an early retirement pension. This strategic decision resulted in a significant reduction in his tax liabilities. This anecdote underscores the importance of our personalized approach in uncovering tailored solutions that can have a profound impact on our clients' financial well-being.

Q5. A study on pensions conducted by Lucerne University of Applied Sciences and Arts reveals an increasing trend in personal responsibility, yet significant knowledge gaps persist. How can we best assist our clients in light of these findings?

The study highlights a growing trend towards personal responsibility in pension planning, revealing significant knowledge gaps. At Rothschild & Co, we recognise the importance of addressing these gaps and guiding clients through wealth and pension planning intricacies. Our comprehensive Wealth & Pension Planning services are integral to our approach, seamlessly integrating customised solutions into long-term wealth management strategies. We empower clients to proactively manage their financial futures, ensuring independence and objectivity in advice to avoid conflicts of interest. With an open platform, we offer a neutral selection of optimal solutions. Life planning is dynamic, and through ongoing collaboration, we help clients optimise returns and secure assets. Our flexible approach adapts to changing circumstances, enabling confident anticipation of future life stages. Recognising the complexity of pensions, we leverage expertise from our network of qualified professionals

to provide necessary support and bridge knowledge gaps. This ensures informed decisions and encourages personal responsibility in pension planning.

Q6. What are some investment solutions for pension funds?

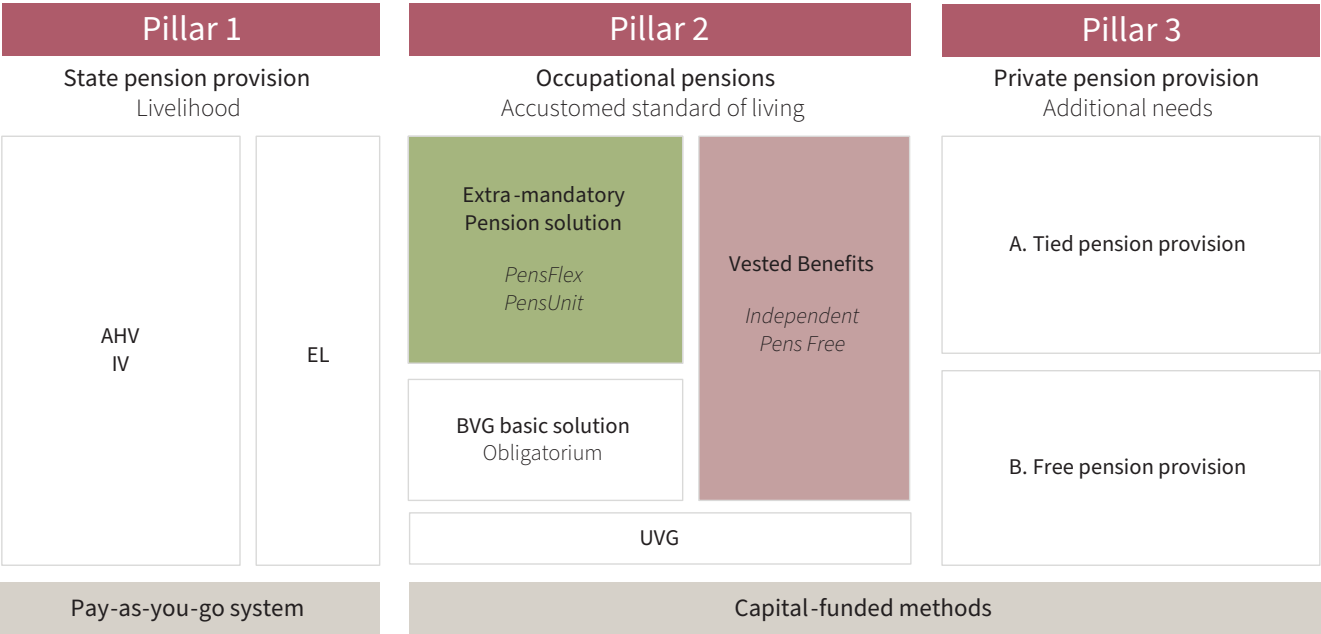
We provide tailored supplementary pension and vested benefit solutions, each designed with unique investment strategies to suit individual needs. These strategies encompass:

1. Account solution featuring fixed-time deposits with variable interest rates (call money) with Rothschild & Co Bank AG Switzerland

2. Passive solution utilizing low-cost index funds/ETFs from leading third-party providers. We offer a regular rebalancing, and we also apply ESG criteria for and picking socially responsible ETFs.
3. Active solution incorporating funds or individual investments. Unique and broadly diversified investment solution with a market-oriented investment approach taking economic and market trends into account. ESG criteria is part of the investment process for sustainable and responsible investments.

Each approach has multiple strategies with different equity quota and is carefully crafted to align with varying risk appetites and financial objectives.

Chart 2: The Swiss pension system



Every year, the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts analyses the current level of knowledge of the Swiss population with regard to finance and retirement provision. The analyses are based on a nationally representative survey of 1,220 people aged between 20 and 65 in employment. The study was supported by PensExpert AG, PKG Pensionskasse and Rothschild & Co Wealth Management.

Our offering

Find out more about our Executive pension solutions.





The power of thematic investments

Thematic investments offer an interesting proposition. Long-term by nature, they provide investors with a different perspective, where short-term fluctuations and its noise become secondary, allowing them to focus on opportunities which may take some time to materialise. In the following article, Eunice Habeke, Investment and Portfolio Adviser, discusses the advantages of integrating thematic investments into a portfolio.



Eunice Habeke

Investment and Portfolio Adviser

At Rothschild & Co, changes in consumer demand, new trends in society, improvements in technology, and sustainability are just a few examples of the thematicity that we consider. Our thematic selection process revolves around key criteria such as innovation, potential for sustainable revenue generation, catalysts for future growth, and the ability to gain market share.

Investing in thematicity brings two main important benefits for investors. On the one hand, thematic investments can provide diversification, because investors gain exposure to new markets across different industries, sectors, or geographies. On the other hand, thematicity can also contribute to portfolio personalisation, as investors can select those trends that resonate most with them or which are closely aligned with their personal interests.

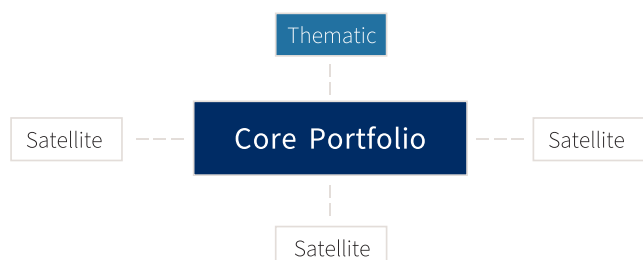
The future is inherently uncertain. Hence, the ability to anticipate megatrends and to properly identify possible future winners becomes a critical starting point. A solid understanding of how structural changes may potentially manifest in financial markets is the basis for the definition of an investment strategy which includes thematic investments. One thing is certain, though: the winners of today may not necessarily be the winners of tomorrow. Additionally, we must remain mindful that thematic investments cannot be considered in isolation. In fact, their correlation with traditional assets classes continues and could even magnify the risk perspective if not carefully understood in the context of portfolio exposure and impact.

Integration of thematic investments in a portfolio

We see three possible approaches for the integration of thematic investments in a portfolio. Each of these approaches offers different advantages for investors, but they also come with different implications, such as the challenge of how to measure their influence on the overall performance of a portfolio.

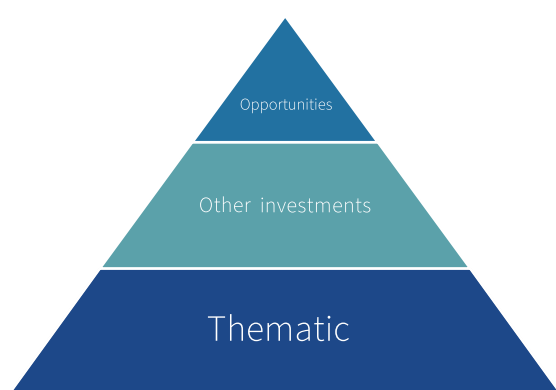
1. As a satellite:

The core/satellite investment approach reconciles the different dynamics of a traditional portfolio versus those of a portfolio composed by thematic investments. The “core” or main portfolio usually consists of traditional equity and fixed income positions, with performance measured against a benchmark. Satellites complete the core but are separated from the main portfolio because of their distinctive nature. Satellites do not necessarily follow a benchmark and can be treated as an opportunistic investment. Assets allocated to the satellite may or may not be equal to those allocated to the main portfolio. This approach offers the advantage of separating monitoring and performance calculation. For example, an investor may wish to structure a traditional balanced portfolio with a mix of single lines in bonds and equities, and then add a satellite position reflecting personal conviction thematicity such as in Artificial Intelligence and Cybersecurity, either in a diversified way via a fund or an ETF, or directly via a stock selection of companies with significant exposure to the theme.



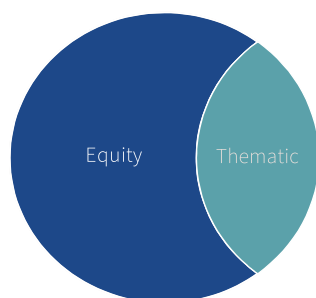
2. As a foundation:

In this approach, the investment strategy is primarily focused on the very long term. Consequently, a combination of more than one thematic investment becomes fundamental for diversification reasons. This foundation can then be completed by opportunistic investments, which are typically more short-term in nature. Here, investors may have a clear motivation to align their portfolio with megatrends such as the digitalisation of society or trends such as sustainability, while also seeking to capitalise on short-term opportunities to increase the overall return potential of the whole portfolio. For example, an investor might establish a foundation for the portfolio by combining different thematic solutions focusing on Artificial Intelligence, Cybersecurity, Industry 4.0 and The Cloud.



3. As a replacement of the equity allocation:

As mentioned earlier, investors can gain equity exposure to different industries, sectors, and geographies through a single thematic vehicle. In this case, part of the portfolio allocated to traditional equities could be replaced by thematic investments. Investors opting for this approach may simply wish to incorporate some thematic investments into their portfolio without necessarily having a specific conviction towards any theme or themes. Investors must, however, remain mindful of concentration risks.



How we look at thematic

Regardless of which approach investors prefer, the integration of thematic investments requires some discipline with respect to the risk profile, investment strategy and guidelines of each specific portfolio.

At Rothschild & Co, we see three important steps in this integration process:

1. Identification of the theme
2. Identification of the appropriate investment opportunity
3. Integration into the portfolio

Once the theme is identified, we select suitable investment opportunities aligned with the investment policy statement of each specific portfolio. This step requires understanding the characteristics of the available investment solutions, an evaluation of their exposure to the theme and their possible synergies with the portfolio. For example, in some cases, an exposure via single lines may make more sense than a more diversified exposure via funds or ETFs. In other cases, derivatives combining a selection of single lines within a specific expected pay-off could be more suitable.

Integrating different types of vehicles with exposure to a single thematic could, despite their attractiveness, unnecessarily increase the overall risk of a portfolio. Therefore, the third step in the integration of the selected investment vehicles with the rest of the assets requires a clear understanding of how different investments impact each other in terms of risk and diversification. By using this analysis as a basis for evaluation, investors can eliminate redundancies and enhance the overall quality of the invested assets. Despite their long-term nature, thematic investments also need to be monitored on a frequent basis due to their impact on the overall equity exposure.

At Rothschild & Co, we organise our thematic offering around four categories:

1. Digital Frontiers
2. The Future of Body & Mind
3. Entertainment & Lifestyle
4. Sustainability

For 2024, we see catalysts and compelling arguments for performance around the “Digital Frontiers”, especially in Artificial Intelligence, Cybersecurity, and Industry 4.0, given important events planned for the year (such as elections) and their potential impact on financial markets. Additionally, with climate change shaping the global economy, water scarcity emerges as a pertinent focus theme within the “Sustainability” category.

[1] Instruments included with a 5% equal weight allocation in each case are: Artificial Intelligence: Xtrackers AI & Big Data; Cybersecurity: L&G Cyber Security; Industry 4.0: iShares Automation & Robotics; The Cloud: Cloud Computing UCITS ETF; Silver Economy: iShares Ageing Population; Weight-Loss: Novo Nordisk (proxy); Blue Gold: iShares Global Water; Environment Investing: Linde (proxy); Streaming: Netflix (proxy); e-Commerce: Amazon (proxy)."

What did we find out?

To demonstrate the benefits of thematic investments in a diversified portfolio, we conducted an analysis comparing two equity portfolios: One consisted of 100% equity exposure to the MSCI World, while the other comprised 50% of our thematic offering selection and 50% of the MSCI World. We tracked the historical performance over the last three and five years respectively.

In both cases, the portfolios were USD denominated, and the MSCI World Index was replicated using a MSCI World AC ETF. The 50% portion allocated to thematic investments in the second portfolio included a selection of ten thematics covered in the categories mentioned above: Artificial Intelligence, Cybersecurity, Industry 4.0, the Cloud, Silver Economy, Weight Loss, Blue Gold, Environment Investing, Streaming and e-Commerce.^{1,2}

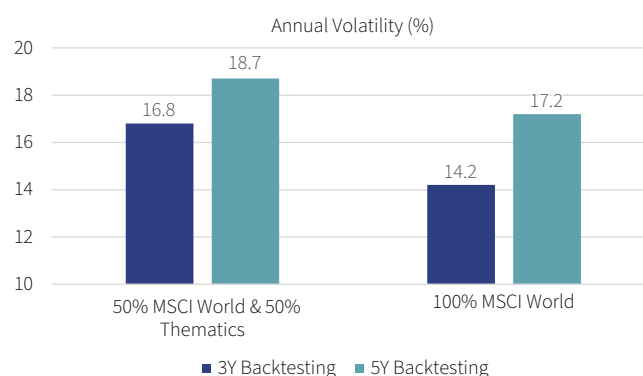
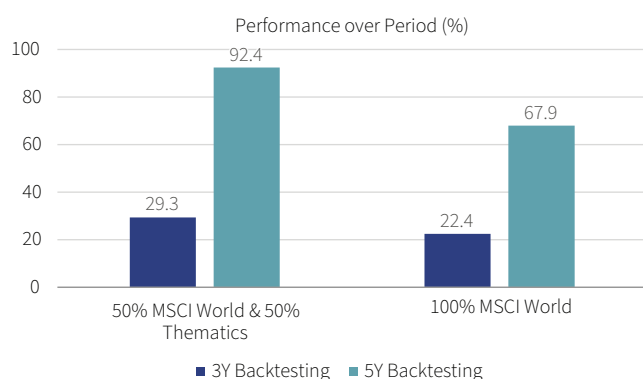
The results of the backtesting over the past three years showed that the portfolio including thematics achieved a return of 29.3%, compared to 22.4% for the 100% MSCI World portfolio. However, from a risk perspective, the portfolio including thematics proved to be riskier due to specific risk and style. Similarly, the five-year backtesting results showed similar characteristics, with the portfolio including thematic investments yielded a return of 92.5%, outperforming the pure MSCI World portfolio's 67.9% return over the same period. Again, annual volatility was higher in the portfolio including thematics.^{3,4}

Two noteworthy conclusions emerged from this analysis. First, in both backtests, the portfolio which included thematic investments outperformed the portfolio composed only of the MSCI World during periods of strong market recovery, such as the post-Covid period (March 2020 to November 2021) and the post-Pivot period (November 2023 to date). Second, a higher Sharpe ratio was observed in favour of the portfolio which included thematic investments (3-year period: 0.46 versus 0.37; 5-year period: 0.75 versus 0.61). This observation implies that the increased risk associated with thematic investments is justified by the positive impact on the overall portfolio.⁵

Personalised diversification

Thematic investments are flexible in their integration and provide both personalisation and diversification benefits to a portfolio. Our backtesting analysis suggests they can also contribute positively to return potential. However, their inclusion requires discipline and adherence to the investment guidelines of each specific portfolio, because thematic investments may increase portfolio volatility.

Chart 1: Higher returns but also higher volatility



[2] Limitations: As some thematic vehicles were only available since 2019, the selection range was the following: Start in January 2019 with 60% MSC World and eight thematics.

In March 2019 with 55% MSCI World und nine thematics. In October 2019 with 50% MSCI World and ten thematics. Source: Bloomberg & Rothschild & Co (Dr. Andreas Doepfert)

[3] Performance detailed results "Backtesting five years": Source: Bloomberg Data & Rothschild & Co (Dr. Andreas Doepfert)

[4] Risk detailed results "Backtesting five years": Source: Bloomberg Data & Rothschild & Co (Dr. Andreas Doepfert)

[5] Sharpe Ratio results "Backtesting": Source: Bloomberg Data & Rothschild & Co (Dr. Andreas Doepfert)

Perspectives

No time to read? We hear you.

Tune in to our *Perspectives* podcast where we share our perspectives on developments impacting markets and the global economy as well as explore the different approaches to capital allocation and decision making.

www.rothschildandco.com/insights



Corporate Private Equity – A case study

At Rothschild & Co, we have four complementary businesses: Global Advisory, providing impartial and insightful guidance on M&A, strategy, and financing; Wealth Management, offering comprehensive wealth management services with a long-term approach; Asset Management, delivering innovative investment solutions tailored to each client's needs; and Five Arrows, the alternative assets arm. In the following article, we conduct a deep-dive into the Five Arrows business model, present a case study to illustrate our approach and elaborate on how we can help our clients scale up and sell their businesses.

Q1. What is Five Arrows?

Five Arrows is the alternative assets arm of Rothschild & Co. It has a globally diversified group of investors, including institutions, corporations, international family offices, and entrepreneurs from Europe, North America, and Asia, who invest alongside the firm, its partners, and the team. Five Arrows manages a series of funds dedicated to corporate and secondaries private equity, multi-manager funds, co-investments, as well as broadly syndicated loans and direct lending with global assets under management of over EUR 26 billion. The Rothschild family's long investing tradition has shaped the Five Arrows approach to investing. Three intertwined principles define who we are today: a deeply ingrained passion for investing, equal emphasis on risk and return, and a culture of partnership.

Q2. What is Corporate Private Equity?

Established in 2009, our Corporate Private Equity business today manages over EUR 9 billion, with a team of over 80 investment professionals located in London, New York, Paris, and San Francisco. We invest through a series of funds focused on growth and buyout deals in the European and North American lower mid-market, mid-market, and upper mid-market segments, (see Chart 1 below).

Our investment approach centres on identifying companies with highly defensible market positions; business models with high visibility of organic unit volume growth and strong free cash flow conversion; strong management teams; and multiple operational levers to unlock latent value. Given the Five Arrows investment approach, experience has shown that the sectors most relevant to us are healthcare, education, data & software, and tech-enabled business services.

Q3. What is the Five Arrows' investment approach?

We strategically leverage our expansive network of specialist industry executives across Europe and North America to help us identify promising investment sub-sectors, uncover hidden investment opportunities and develop a proprietary, differentiated and strategic point of view on embedded upsides invisible to industry outsiders. As a result, we have well-developed points of view on what we like to invest in and have commonly followed the businesses we invest in for long periods of time prior to the completion of a transaction. This approach, combined with our domain expertise, allows us to move quickly, be decisive in our responses and agile in our ability to commit capital.

We seek to support strong, motivated management teams with whom we establish a relationship of trust. As an engaged shareholder, we look to support and guide great companies to become even better and achieve their full strategic potential.

Chart 1: Our Investment Strategies

Lower Middle-Market

In the lower middle-market, we seek to deploy equity tickets of EUR 30 to EUR 100 million per investment in fast-growing companies.

Middle-Market

In the middle-market, we seek to deploy equity tickets of EUR 100 to EUR 300 million per investment. In addition, we have the ability to commit substantially more than EUR 300 million to a single transaction upfront, thanks to extensive co-investment agreements with our investors.

Upper Middle-Market

In the upper middle-market, we seek to deploy equity tickets of more than EUR 400 million per investment. In addition, we have the ability to commit substantially more than EUR 400 million to a single transaction upfront, thanks to extensive co-investment agreements with our investors.

Our Portfolio Operations Group combines top-tier consulting pedigree with experience as operating executives to bring a strategic and operational skill-set to bear in company-specific situations. This results in a strong focus on building the systems and processes for data-driven decision making, organisational design and executive recruitment, commercial performance improvement, product strategy and delivery, M&A integration and systems upgrades.

Delivering long-term value has always been at the heart of the Five Arrows strategy. We are committed to address sustainability in our investment process and aim to promote the principles of responsible investing within our investments and encourage our partners to consider ESG criteria in their activities. This includes our commitment to contribute to a more environmentally sustainable economy by minimising our carbon footprint and promoting responsible consumption and resource management.

Q4. What is a specific example?

In December 2021, Five Arrows invested in KidsKonnnect, a leading provider of software solutions to the childcare sector.

KidsKonnnect — headquartered in the Netherlands — is the leading Software as a Service (SaaS) provider for childcare organisations in the Benelux and the UK. Its software suite provides nurseries with an end-to-end operating system to handle core business processes including child and staff planning, invoicing, billing, parent communications, and child observation.

KidsKonnnect serves all major childcare chains in the Netherlands, and is one of the fastest growing players in the UK. KidsKonnnect has ample opportunities for future growth through continued market share gains, new product development, cross-sell and pan-European expansion as it continues to deliver innovative products to its customer base in the Benelux as well as building a strong presence in other European markets.

The opportunity was identified through the Five Arrows proprietary sub-sector work in EdTech (prior investments include Texthelp and n2y) as well as the education sector (Kisimul, Stepping Stones Group, Groupe EDH and French nursery operator Les Petits Chaperons Rouges). In addition, the Rothschild & Co network (our Global Advisory business is the leading advisor to the childcare sector) provided access to key executives in the childcare industry who helped the deal team validate the quality of KidsKonnnect's offering and the large market opportunity available outside of the Benelux.

Q5. What strategies have been employed to drive KidsKonnnect's success since their acquisition?

We immediately focused on strengthening the leadership team around its CEO, Peter Baars. At the executive level, we hired a CRO, a COO, a CTO, a CPO and a head of M&A, all from blue-chip organisations. At the non-executive level, we recruited an experienced Chairman as well as a childcare sector specialist to deepen our customer understanding.

We have launched an ambitious technology investment programme called « KidsKonnnect 2.0 » to provide our customers with a next generation software offering across international markets which includes innovative AI-based planning modules to help childcare centres run their businesses better. We have also made four add-on acquisitions to extend KidsKonnnect's product suite – notably into business intelligence for our childcare customers – and establish a footprint in the UK market. We expect to continue this approach for other major European markets.

Five Arrows helped **KidsKonnnect** with the first step of its European expansion by acquiring Blossom Educational, a UK-based SaaS provider for local childcare organisations. This strategic move clearly establishes the ambition for KidsKonnnect to be the software partner of choice for leading childcare chains, across Europe.

In parallel, we have continued to grow at double digits in the Benelux by professionalising KidsKonnnect's go-to-market approach with a refreshed commercial organisation and a better pricing and packaging structure.

6. What about next steps?

Our joint vision with the management team is make KidsKonnnect the undisputed European champion in childcare software through innovative products sold to the leading childcare organisations across markets.

Insights

At the heart of *Insights* lies a wide set of timely and insightful publications and podcasts.

For more information, please visit our page at www.rothschildandco.com/insights



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