

QUARTERLY LETTER | ISSUE 41 | JANUARY 2024

The art of building strong relationships

Foreword

At the start of a new year it's natural to think about our hopes and ambitions for the next 12 months.

Many of us will be taking a moment to consider what we'd like to achieve this year. Whether it's something related to your finances or a personal ambition, very few goals will be achievable without help and support from others.

We all rely on our network of contacts – from friends and family to colleagues and business partners – to help us make better decisions, and to lend their expertise if things aren't going to plan.

Yet building a strong relationship is no easy task. You must invest your time cultivating new relationships, and making sure old ones don't fall by the wayside, through both good and bad times.

Every relationship has its up and downs, but the strongest, most enduring ones survive by being built on firm foundations of mutual respect, two-way communication and common goals.

At Rothschild & Co, we understand that our business depends on the strength of our relationships – with our clients, with our network, and with the companies and funds that we invest in.

Having solid foundations is especially important during turbulent times. While we can't always predict which way markets will turn, we can control how much time we invest in developing good relationships. Here, the returns tend to be more reliable.

So in this *Quarterly Letter*, we'd like to talk about how and why we seek to build strong relationships, and the positive impact we believe they have on our approach to wealth preservation.

I wish you all a Happy New Year and a successful 2024.

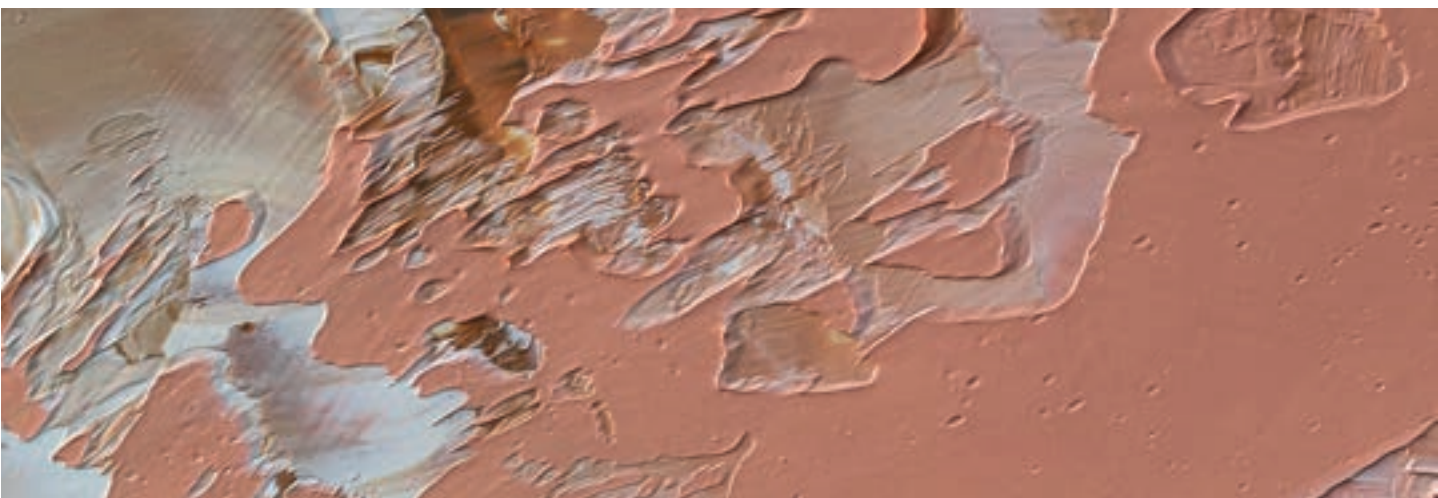


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The art of building strong relationships

For 85 years, researchers in Boston have followed the lives of thousands of Americans in an attempt to answer one of life's big questions: 'what is the secret to happiness?'

Launched in 1938, when the US was in the midst of the Great Depression, the Harvard Study of Adult Development began with 724 participants. Almost all of the original participants have since passed away, but the study has grown to encompass more than 1,300 of their loved ones and descendants, spanning three generations.

The research is rigorous. Every two years, participants are sent a lengthy questionnaire that encourages open-ended, personalised responses. Every five years, their complete health records are collected, and every 15 years they receive a face-to-face visit from the researchers to talk about their lives.

No stone is left unturned. Participants are asked about their hopes and dreams, their job, their family and any political or religious beliefs. What are their fondest memories? How did they feel in their lowest moments? Who would they call first if they were in trouble? Which presidential candidates do they vote for?¹

As well as decades of questionnaires and interviews, the researchers also analyse blood tests, DNA samples, medical scans and brain imaging reports to add a more quantitative aspect to their findings.

So, what is the secret to happiness? According to the study's current directors, professors Robert Waldinger and Marc Shultz, the answer is quite simple. It can be boiled down to just two words: good relationships.

"If you're going to make that one choice, that single decision that could best ensure your own health and happiness, science tells us that your choice should be to cultivate warm relationships," the professors explain.²

We couldn't agree more. Building strong relationships is something we feel very passionately about at Rothschild & Co. Our relationships are the heart of our business, and they have been for more than 200 years.

But before we explain how this helps us to be better custodians of your wealth, let's delve a bit deeper into why connecting with people matters.

STRANGERS ON A TRAIN

If you were asked to describe the happiest moment of your life, what would you say?

Like most people, you would probably recall the uniquely special occasions you've shared with loved ones. The joy of your wedding day, perhaps, or the birth of your children or grandchildren.

So do we really need science or multi-generational studies to tell us that relationships are important? Isn't it just common sense?

Well, our view is that it doesn't hurt to remind ourselves every now and again. We live in a world where technology has liberated us in many ways, but it can also isolate us from the social interactions that enrich our lives every day.

As a result, we don't always appreciate the power of human connection. To show what we mean, let's try a quick thought experiment.

Imagine you're on a busy train full of strangers. You are travelling alone, and you want the journey to be as pleasant as possible. Given the option, would you prefer to talk to a fellow passenger or keep to yourself?

If you chose the latter, you're not alone. Most people would prefer to read a book, do some work or play with their phones rather than strike up a conversation with a stranger.³

¹ John F Kennedy was one of the Harvard Study's original participants. Unsurprisingly, he voted for himself.

² The Good Life: Lessons from the World's Longest Study on Happiness, p10, Robert Waldinger and Marc Shultz, 2023.

³ Mistakenly Seeking Solitude, Journal of Experimental Psychology: General, Nicholas Epley and Juliana Schroeder, 2014.

To find out why, University of Chicago researchers split train commuters into two groups, with the individuals in the first group instructed to chat with a random person while the others were told to sit in solitude.

While most of the participants predicted they would have a bad experience when talking to someone they didn't know, in reality, the opposite was true. They instead reported a far more enjoyable journey than those who kept to themselves.

"We seem particularly bad at forecasting the benefits of relationships," Waldinger and Shultz wrote in their book.⁴

"This is a feature of our decision-making in general: we pay a lot of attention to potential costs and downplay or dismiss potential benefits."⁵

Even when we know that human interaction is good for us, we can be reluctant to put that theory into practice, as anyone who has ridden the London Underground at rush hour in complete silence will no doubt appreciate.

Sometimes we need a little encouragement to engage with the people around us. When we do, however, the benefits can be profound – and not just for our health and wellbeing but also our creativity.

SERENDIPITY BY DESIGN

"Creativity is just connecting things."
– Steve Jobs

Temperamental. Antisocial. Aggressively rude. A jerk.

These are just a few of the choice words used to describe Steve Jobs in biographies of his life. We've even refrained from repeating some of the more colourful characterisations of the Apple founder's mercurial personality.

Jobs perhaps seems an odd choice, then, when emphasising the importance of building strong, enduring relationships.

Relationships are ultimately about people and, by most accounts, Jobs wasn't a people person. But he did understand people. And more importantly, he recognised the power of connecting people. The iPhone is an obvious example, but we think there is a better one.

In 1999, Jobs was CEO and a major shareholder at animation studio Pixar. He was heavily involved in the design and construction of the studio's headquarters in Emeryville, California.

The project became known as 'Steve's movie' among the company's executives – it had roughly the same budget as a Pixar blockbuster, took a similar amount of time to complete and Jobs was the de-facto director.⁶

After careful consideration, he planned the entire headquarters around a central atrium. Everything was either in the atrium or connected to it – conference rooms, mailboxes, a theatre, the cafeteria and gift shop. Even the building's only set of toilets were there.⁷

Why? Despite being a pioneer of digital communication, Jobs was a big believer in doing things face to face.

He wanted Pixar's diverse staff of artists, animators, writers and computer wizards running into each other regularly. This way, people would be away from their screens and innovating through chance encounters.

"Steve's theory worked from day one," Pixar co-founder John Lasseter later recalled.⁸

"I kept running into people I hadn't seen for months. I've never seen a building that promoted collaboration and creativity as well as this one."

⁴ The Good Life: Lessons from the World's Longest Study on Happiness, p37, Robert Waldinger and Marc Shultz, 2023.

⁵ Quarterly Letter: Making better investment decisions, Rothschild & Co, October 2023.

⁶ Steve Jobs: The Exclusive Biography, p398, Walter Isaacson, 2015.

⁷ Jobs eventually relented to staff pressure and added more toilets elsewhere.

⁸ The Real Leadership Lessons of Steve Jobs, Harvard Business Review, April 2012.

Sometimes we need a little encouragement to engage with the people around us. When we do, however, the benefits can be profound.



A CLOSE-KNIT CULTURE

At Rothschild & Co, we believe the best relationships are forged in person and, much like Steve Jobs, our aim is to spark creativity by encouraging a collaborative environment where face-to-face meetings are the norm rather than the exception.

New Court has been the home of the London house of Rothschild since 1809, and while it has grown considerably over the years, the intimate culture that is so characteristic of a family business has never diminished. The same philosophy also applies to our other offices in Birmingham, Leeds and Manchester.

Our teams work in close proximity to one another, which facilitates the free flow of insights and information. When clients have questions or concerns, our advisers can quickly confer with portfolio managers in person to find a way forward.

The client and investment teams are clearly delineated, so each one can focus on their respective areas and key strengths. Nevertheless, working together closely – both figuratively and literally – fosters a co-operative atmosphere that naturally yields novel ideas, new areas of research and rigorous but friendly debate.

As regular readers of our *Quarterly Letter* will perhaps know, we pride ourselves on an extremely low staff turnover rate in an industry where longevity and continuity are rare but highly valued.

Furthermore, we actively encourage our people to connect with colleagues across the company to benefit not only each other, but to bring the entire Rothschild network to bear for our clients.

We do not see strong, long-standing relationships as just a by-product of our approach. They're one of the driving forces behind our investment philosophy and are fundamental to how we safeguard our clients' wealth.

INVESTING IN RELATIONSHIPS

To understand why the art of building strong relationships is such an important part of our ethos, let's look at our investment approach.

Our aim is to preserve and grow the real value of your wealth, and we do this by seeking above-inflation returns, while avoiding large losses during times of market volatility.

More specifically, we have a 'bottom-up' investment approach, which involves selecting high-quality companies and funds that we are confident will perform well over the long term.⁹

How do we define 'high quality'? For us, a business must have a resilient business model and business practices, including sustainable competitive advantages, such as a well-known brand, cost efficiencies or significant network effects.

However, it's not just about company performance. The people behind the business are just as important. Does it have a robust management team? How long have they been in place? And do they have a good track record of shrewd capital allocation?

We believe consistency is key, and it's reassuring to see management teams with long tenures and a clear succession plan for when key people leave or retire.

But there is only so much that can be gleaned from annual reports, financial spreadsheets and other publicly available information. Getting to know people face to face is essential.

That's why we strive to spend as much time as possible with a company's key individuals and staff during our deep research and independent analysis of an investment.

THE POWER OF PROXIMITY

The best research is produced when people work within ten metres of one another, according to a Harvard Medical School study. It found that close physical proximity between researchers led to scientific papers that were of significantly higher quality than when co-authors were located a kilometre or more apart.

"Even in the era of big science, when researchers spend so much time on the internet, it's still so important to create intimate spaces," study author Professor Isaac Kohane said.¹⁰

⁹ Quarterly Letter: Building from the bottom up, Rothschild & Co, April 2022.

¹⁰ Groupthink, Jonah Lehrer, The New Yorker, 22 January 2012.

Our research teams frequently tour offices, factories and plants across the world, giving us unique insights into a company's culture and values. We also talk with both current and former employees and customers, as well as suppliers, distributors and competitors to paint a more accurate picture of how a business operates day to day.

The strong relationships we have built with subject matter experts, external researchers and third-party fund managers also enable us to tap into our extensive network for further information upon which to base our investment decisions.

Because our threshold for investing in a company is high, it's not uncommon for otherwise great businesses to fall short. Nonetheless, we continue to cultivate the relationships we have formed with management teams, so that we're aware of any developments in the future that might cause us to change our minds.¹¹

Once we decide to add a company to our portfolios, however, it is then that the strength of our relationships really begins to shine.

RELATIONSHIPS IN ACTION

When we invest, we do so with the intention of holding a position for many years. Berkshire Hathaway, for instance, has been in our portfolios since 2010, while we have held both Ryanair and American Express for more than a decade.

As long-term owners, the relationships we establish with our investee companies grow stronger with each passing year.

We communicate with management teams regularly, and this active dialogue develops mutual trust and allows us to engage in ways that can lead to positive changes at a company. Changes that may ultimately have an impact on returns.

A good example is agricultural equipment company John Deere. We started investing in the firm in 2014, and we have come to know the people at John Deere extremely well over that time.

In many ways, it's a relationship that's built on shared values. Like us, Deere has a long history. It was founded in Illinois in 1837, just a year after Nathan Mayer Rothschild's eldest son, Lionel, took over the reins of N M Rothschild & Sons in London.¹²

We're also both businesses that focus on the future. Deere is committed to helping farmers be more productive, more profitable and more sustainable for generation after generation, just as our goal is to preserve and grow families' wealth over the very long term.

Our close relationship with Deere therefore enables us to speak directly with its management team and offer our thoughts on how the company can better achieve some of its business goals and sustainability priorities.

For a number of years, Deere has been at the forefront of making farming more sustainable through precision agriculture¹³, electrification of the farming fleet and automated solutions. But we believed there was room for improvement in the way the company quantified and communicated the great work it was doing.

When meeting with Deere, we suggested that its sustainability reporting could be significantly improved by including more detailed, data-driven metrics, as well as clearer information on the company's targets and baselines.

Not only were these recommendations taken on board, but the company is now an example of best-in-class sustainability reporting, giving us even greater confidence that Deere is well prepared for the risks and opportunities it faces.

While there are limits to how far our influence extends with some companies, this does not deter us from continually striving to strengthen our relationships with the businesses we invest in, or clearly communicating our expectations of them.

But it's also important to take a step back to try and evaluate our relationships objectively. We view our investment relationships as partnerships, not marriages, so we're regularly reviewing each of them to ensure the relationship still works for the benefit of our clients.

TRUSTING TALENT

We know that we don't have a monopoly on talent. Since our company's very beginnings, we've worked with a large network of partners to give us insight into the markets and geographies where our local knowledge or presence has perhaps been limited.

¹¹ Quarterly Letter: Changing your mind, Rothschild & Co, July 2022.

¹² Rothschild & Co is now under the seventh generation of family leadership through our executive chairman, Alexandre de Rothschild.

¹³ Scaling climate technology through strategic capital, Rothschild & Co, November 2023.

The relationship between you and your adviser is hugely important, and we work hard to find the right fit.



This network has always been one of our greatest strengths.¹⁴ Our partnerships with third-party funds, for example, enable us to extend our reach into new areas where there may be exciting investment opportunities.

Due to our strong, long-standing relationships with many of our external managers, we view them as much more than suppliers. You may have heard us refer to them as extensions of our own investment teams – our eyes and ears (and brains) on the ground in regional markets.

What's more, they can act as an important sounding board when we're conducting our in-house research and analysis.

One of the potential drawbacks of having a close-knit culture is groupthink.¹⁵ We work hard to avoid this by encouraging our teams to challenge each other and view decisions objectively through a neutral lens.

However, having strong relationships with trusted third-party managers who share our values and investment philosophy can bring a fresh perspective to our approach.

OUR CLIENT RELATIONSHIPS

No discussion about the importance of building strong relationships would be complete without emphasising how much we value the personal relationships we have with you, our clients.

Earlier, we mentioned that our aim is to preserve and grow your wealth in real terms. But this is not our only goal – we also look to deliver exceptional client service.

Even before Rothschild & Co was founded, Mayer Amschel Rothschild had built a reputation for putting clients at the centre of his business. As a trader, he was well-respected among his customers for being honest, reliable and conscientious, virtues that he was keen to instil in his five sons.

Fast-forward to today, and we are as committed as ever to developing genuine personal connections with the people we serve. Our advisers spend a lot of time getting to know you better, so that we can fully understand you and your family's priorities and motivations.

Most of our clients want to protect their wealth from eroding forces, but many of your longer-term ambitions run deeper than that. As a wealth manager, it is our responsibility to help you map out the future and visualise how your wealth can be put to best use to achieve your goals.

The relationship between you and your adviser is hugely important, and we work hard to find the right fit. We want our clients to trust that we will be honest with them. Occasionally, that may mean diplomatically disagreeing and suggesting a different course of action.

But we do so always with the purpose of preserving your wealth for future generations, and because we firmly believe that open, sincere communication is the foundation of any enduring relationship.

¹⁴ Quarterly Letter: The power of networks, Rothschild & Co, October 2020.

¹⁵ Uncovering behavioural biases when investing, Rothschild & Co, October 2023.

Important information

Notes

At Rothschild & Co Wealth Management we offer an objective long-term perspective on investing, structuring and safeguarding assets, to preserve and grow our clients' wealth.

We provide a comprehensive range of services to some of the world's wealthiest and most successful families, entrepreneurs, foundations and charities.

In an environment where short-term thinking often dominates, our long-term perspective sets us apart. We believe preservation first is the right approach to managing wealth.

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