Rothschild & Co
Wealth Management

Data centres revealed

THEMATIC INVESTMENTS

Q3 2024

Looking back on our thematic investments

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The **third quarter** of 2024 saw significant developments across several **key thematic areas**, most notably in the **infrastructure of artificial intelligence**, and **healthcare innovation**. This report provides an in-depth analysis of thematic performance like ***Artificial Intelligence - Data centres***, and ***Industry 5.0*** offering investors deeper insights into the key drivers shaping these sectors. By examining both market trends and sector-specific developments, the report also provides a forward-looking perspective on potential growth opportunities in the upcoming quarter.

In the past quarter, our recommended implementation yielded mixed results. Nvidia, Novo Nordisk, and Adobe, which were winners of the previous quarter showed both higher volatility and some underperformance. Within each thematic, there were also disparities. Fortinet, Mercado Libre, Straumann, Veralto and Nextera stood out as key positive performers, benefiting from a strong market recognition of their business strategies. Novo Nordisk and ASML faced challenges, with their weakness attributed to external factors.

In our ***AI-Data centres*** thematic, we initiated exposure through selected single stocks, mainly within the industrial sector, focusing on companies involved in the construction of data centres infrastructure. Our stock selection targeted providers of power infrastructure such as ABB, Schneider Electric, Legrand and Eaton Corp.

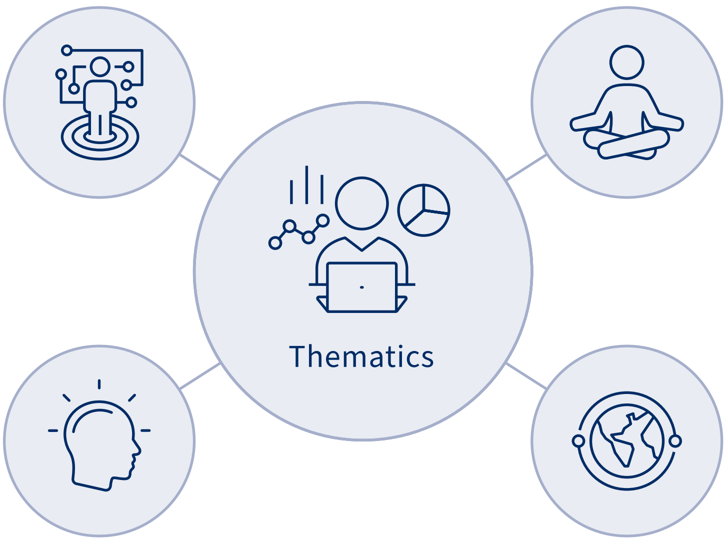
Entering the new quarter, corporate earnings remain favorable for equities, supporting a positive outlook. We recommend maintaining our current selection with minor adjustments to optimize the performance. Over the long-term, we expect our four thematics to reinforce each other, while creating new pockets of opportunities for investors. As the landscape evolves, our selection of themes and implementation ideas will continue to adapt to seize new opportunities.

Digital frontiers

ARTIFICIAL INTELLIGENCE
CYBERSECURITY
INDUSTRY 5.0
THE CLOUD

The future of body & mind

SILVER ECONOMY
WEIGHT LOSS



Entertainment & lifestyle

STREAMING
SPORTONOMICS
ECOMMERCE

Sustainability

ENVIRONMENT INVESTING
BLUE GOLD

Key trends at the heartbeat of our thematic investments

Digital frontiers

AIMING FOR LOW CO2 SOLUTIONS WHILE ENERGY DEMAND IS SET TO RISE

The importance of Artificial Intelligence (AI) in the future is indisputable and its planned deployment across industries is considered a meaningful turning moment in time. To fully reach this potential, large investments are initially required, particularly in data centres, which are key elements of the AI infrastructure. Nevertheless, as AI becomes increasingly integrated in our everyday life the data, algorithms, and other mathematical calculations will demand exponentially greater computation power. The challenge of the data centres of the future will be to meet this growing demand while ensuring the sustainable use of energy and resources without harming current efforts towards protection of the environment.

MANAGING CYBERSECURITY RISKS IN AN AI-FOCUSED WORLD

Developments around AI bring not only opportunities but also significant risks. The future of a digital world is increasingly threatened by the misuse of AI, making cybersecurity one of the most critical concerns for governments and corporations worldwide. Looking ahead, CEOs across industries are likely to reference both AI and cybersecurity in their quarterly earnings calls. We believe that investments in AI and cybersecurity must be made now, both by companies and governments, even if immediate profits are delayed Today's investments will determine the winners and the losers of the future.

The future of body & mind

ADAPTING TO THE AGEING OF THE POPULATION

Demographics is one of the most crucial, yet often overlooked, topics in modern society. Current data suggest that the global population aged 65 and older is getting larger and its share is growing worldwide. This trend not only creates new markets for specialized products and services but also raises questions about how society is preparing for this demographic shift. As longevity becomes a defining feature of modern society, the focus is moving from merely extending lifespan to enhancing the "quality of longevity". Advances in healthcare and innovation are paving the way for seniors to enjoy better health, strength, and happiness, while contributing to the economy.

Entertainment & lifestyle

PREPARING FOR EVOLVING LIFESTYLES IN A HYPERCONNECTED WORLD

Entertainment & lifestyle sit at the intersection of digital advancements and mindset evolution. Future generations will seamlessly incorporate AI in their daily routine, while their tastes and attitudes will adapt, shaping new lifestyles and new ways of enjoying and consuming entertainment services. To unlock growth in this sector, adaptation and constant innovation will be essential for businesses in the entertainment and lifestyle industries.

Sustainability

CHANGING ATTITUDE AT A CORPORATE LEVEL

Despite moderate investors' interest in sustainable related assets and investment vehicles during the year, the world continues to get warmer and social and governmental issues persist. These factors represent a potential tail risk for many businesses in the years ahead and could have implications for investors. We therefore believe that there is a business case for sustainability as companies increasingly integrate ESG criteria in their corporate strategies. Today, more than half of CEOs view sustainability issues as a higher priority than they did a year ago (Financial Times) and start-ups are adopting sustainability practices to differentiate themselves or to attract funding.

01

Digital frontiers

Artificial Intelligence

Excitement, hope but also a test for patience

The quarter started in July 2024 with excitement about opportunities brought by AI applications. However, by the end of the month this excitement turned into concern as the quarterly earnings reports of **Amazon**, **Microsoft**, and **Alphabet** showed that capital investments in AI infrastructure were significantly higher than their expected near-term returns. This criticism received broad acceptance in August and contributed to a global stock rout. Among others, chipmaker **Nvidia**, which briefly became the world's most valuable company this year, suffered a record loss of USD 279 billion in a couple of days, the biggest loss in value ever for a US stock.

Risk appetite returned in mid-September, with deep buyers taking advantage of valuations, fueled by anticipations of a US rate cut and a soft-landing rhetoric. **Nvidia** rose considerably, leading other mega-cap stocks. The quarter closed with three consecutive weeks of gains in US equity markets, driven by positive momentum related to the economic stimulus in China. Semiconductor equipment makers such as **ASML** and **VAT** gained in sympathy.

Data centres – Aiming for low CO2 solutions while energy demand is set to rise

While investors hope for immediate revenue generation from AI applications, gains might take some time to materialize. Yet, for that to arrive, the initial AI infrastructure needs to be in place, particularly the data centre capacity, which is now a key focus within the ***digital frontiers*** thematic. As AI advances, training large language models will require more and more power on a scale not yet achieved. Significant investments in data centres will be required to accommodate all AI related hardware and maintain the speed and efficiency of data transfer required to meet future demands.

On September 20th, Constellation Energy Corp (not covered by Rothschild & Co), the biggest US operator of reactors, announced a USD 1.6 billion deal with **Microsoft** to relaunch Unit 1 of the Three Mile Island power station. The contract has been concluded to satisfy Microsoft's increasing energy needs driven by its AI developments. This is not an isolated case. Back in March 2024, **Amazon** announced the acquisition of a data centre campus near the Susquehanna nuclear plant. These investments suggest the beginning of larger solutions being developed and are related to the need of carbon-free electricity to respond to the increasing AI power demand.

DEEP DIVE

Data centres

Artificial Intelligence is evolving at a remarkable pace, with the global AI market expected to soar to USD 407 billion by 2027, growing at an annual rate of 35% across industries until 2030.

This rapid expansion requires significant investment in data centres—the critical infrastructure driving AI operations—which are highly energy-intensive. Consequently, the focus must shift towards sustainable energy solutions and optimised resource management within these facilities.

Cybersecurity

Big winners, big losers

Focusing now on cybersecurity, the quarter was mixed among winners and losers. CrowdStrike (not covered by Rothschild & Co) caught the attention of both investors and users after a major flaw in the systems running on a **Microsoft** software. **Palo Alto**, on the other side, continued to focus on platform solutions integrating AI functionalities and receiving top analysts scores for their vision, strategy, and innovation. **Palo Alto** was not the only one, **Fortinet** delivered simple, flexible enhanced security solutions integrating generative AI. The market rewarded Fortinet's effort, pushing its share price towards record highs in August.

The cloud

Challenges but demand still strong

During the rout in August semiconductors emerged as the worst performers, losing over 20%. In contrast, cloud service providers and AI adopters experienced a more moderate decline of around 10% reflecting their different sensitivity to economic cycles.

Among others, **Adobe** and **Salesforce** gained wide investors' attention after their share prices showed significant moves in the quarter. The performance of these stocks was also dependent on the AI trade and their ability to integrate it in their products and services. Both companies focused on enhancing customer experiences, however investors favored more Adobe's creative efforts as Salesforce showed some challenging elements despite solid revenue growth, for example Adobe's Firefly, the company's latest generative AI tool to enhance user's creativity.

Industry 5.0

From robots to humanoids... with some time to materialize

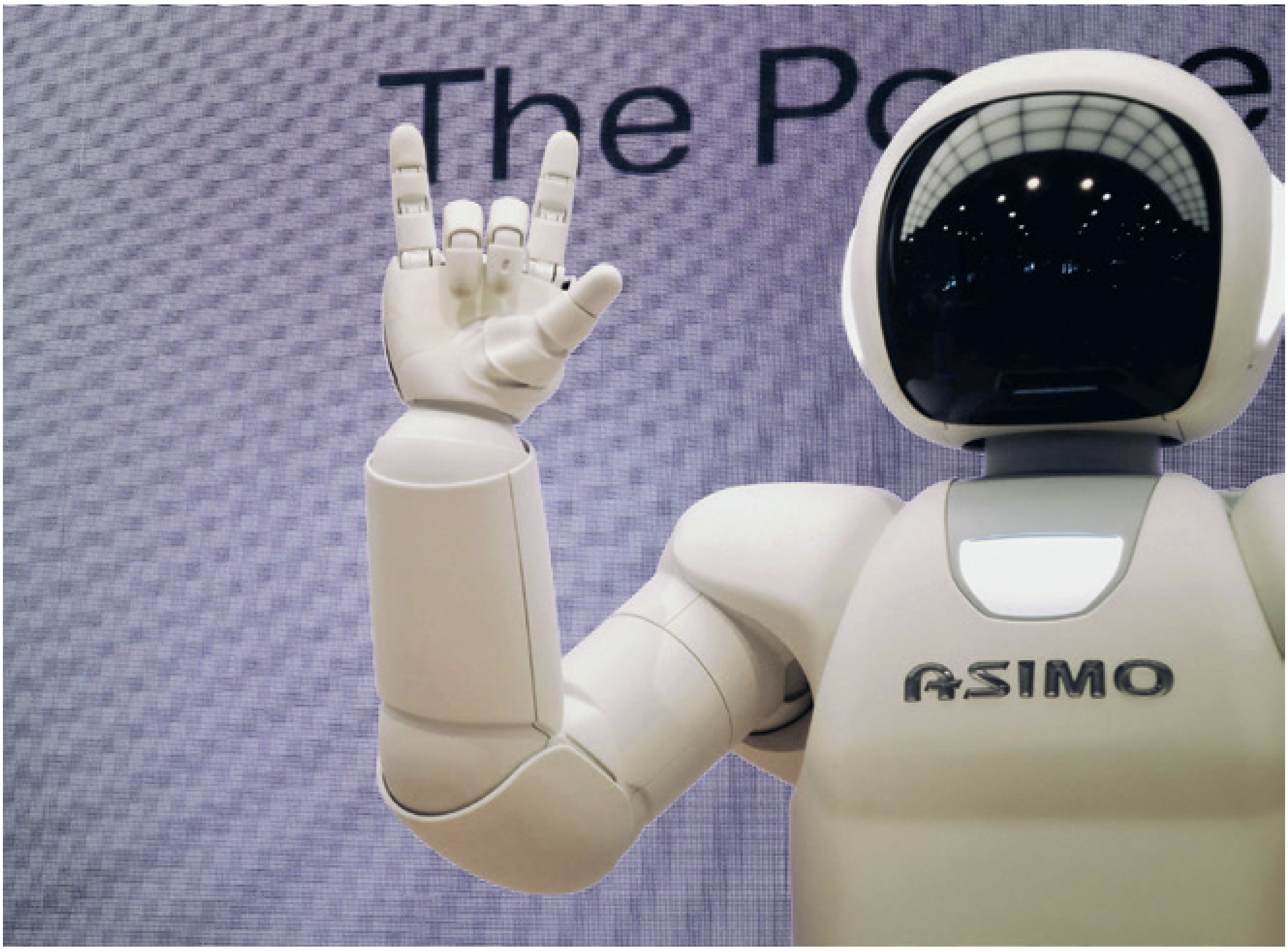
Industrial revolutions have always been driven by technological breakthroughs and the fast advancements of AI are no exception. Building on Industry 4.0, Industry 5.0 is set to revolutionize production, boost efficiency, and redefine customer experiences through AI, robotics, and big data automation. We therefore enhanced our thematic *Industry 5.0* with an analysis of the implications in robotics and automation.

The evolution and expansion from robots to humanoids, however, may take some time to materialize. For this reason, even though our company selection is appropriately positioned for the future of robotics and automation, returns have been rather modest over the past quarter. More specifically, **VAT** and **Comet** underperformed in USD terms, due to issues which we consider temporary.

DEEP DIVE

Industry 5.0

Industry 5.0, through AI, robotics, and big data, is set to revolutionise production, boost efficiency, and redefine customer experiences. Building on Industry 4.0, this phase encourages deeper human-machine collaboration, making businesses more agile, innovative, and sustainable. Early adopters are already reaping benefits, highlighting the central role of AI-driven transformation in future industrial success. In this article, we explore how these developments are shaping manufacturing and how businesses can seize the opportunities they present.02



02

Entertainment & lifestyle

Streaming

The winner takes it all

The streaming industry is facing challenges, with rising competition and a shift in focus from subscriber growth to profitability. In this landscape, only **Netflix** showed a positive run, while **Disney** struggled to keep all its services profitable.

It seems that every decade has a dominant media company, and this era, Netflix stands out as a leader. Despite the "streaming wars" ignited almost five years ago by Disney+ , Netflix remains in the leading position in both subscriber numbers and time spent on the platform. In July, Netflix captured about 8.4% of US screen time while its nearest Hollywood rival, Disney, had 4.8% between Disney+ and Hulu. Indeed, audiences seem to remain loyal to Netflix.

Sportonomics

Innovation to unlock growth

At the turn of the new quarter, we launched the Sportonomics thematic. The sport industry is fast-growing, with several other markets benefiting from the direct and indirect spillover effect. Our selection included, therefore, both direct and indirect exposure to sports.

Within the direct exposure, our selection on **Nike** surprised for the wrong reasons. After its earnings publication, the stock fell significantly as the numbers revealed that the company was struggling with declining sales and insufficient innovation. By the end of the quarter, however, the company announced the return of Elliot Hill from retirement as a key manager, and some rebuilding gained traction. As a result, shares recovered by around 7% intraday.

Within the indirect exposure, we focused on key sponsors. Companies such as **Heineken** and **Booking Holdings** benefited from their sponsorship and momentum generated by the European Football competition and the Olympics in Paris. **L'Oréal** and **Galderma**, which focused on women sports, gained visibility thanks to the rise of women's participation in elite sports.

e-Commerce

Still room for penetration

We maintain conviction in the global e-Commerce theme. Analysts continue to show confidence in the resilience of the business model and anticipate further online penetration among retail consumers and new customer experiences powered by artificial intelligence.

Among our equity selection, **Mercado Libre** stood out, yielding double-digit total returns during August and September. The strong performance followed the publication of corporate results that showed record sales in Latin America, with the company notably gaining additional market share, against **Amazon**.

03

The future of body & mind

Weight loss

Bright potential but bumpy road

Within our *Weight loss* thematic, increasing demand for GLP1 drugs continued to show potential for further gains as convincing evidence of real health collateral benefits continued attracting attention of users and investors alike. Nevertheless, during the quarter, Novo Nordisk disappointed investors on lower Q2 sales. The stock price was also hit by the US government hinting at pricing pressures. In August, on the other side, Eli Lilly's attracted investors interest after raising its sales outlook for the year and reporting Zepbound sales above expectations at USD 1.2 billion in Q2. The shares soared 10% on the news.

Silver Economy

Set to gain center stage

The *Silver Economy* is set to gain center stage in the coming years as the concept of good health combined with productivity is reshaping the future. As longevity increases, the trend suggests that healthier populations will not only be more productive but also be a source of welfare. Therefore, we believe companies focused on innovation and technology are best positioned to benefit from this trend, as they can potentially improve the life and environment for seniors.

Our equity selection reflects this outlook, including companies committed to healthcare innovation such as UnitedHealth, Sonova and Straumann. These companies delivered solid double-digit performance during the period, with Straumann standing out. The company published strong growth in the second quarter and a promising outlook related to sales of its dental aligner business.

04

Sustainability

Environment investing

Benefiting from the AI revolution

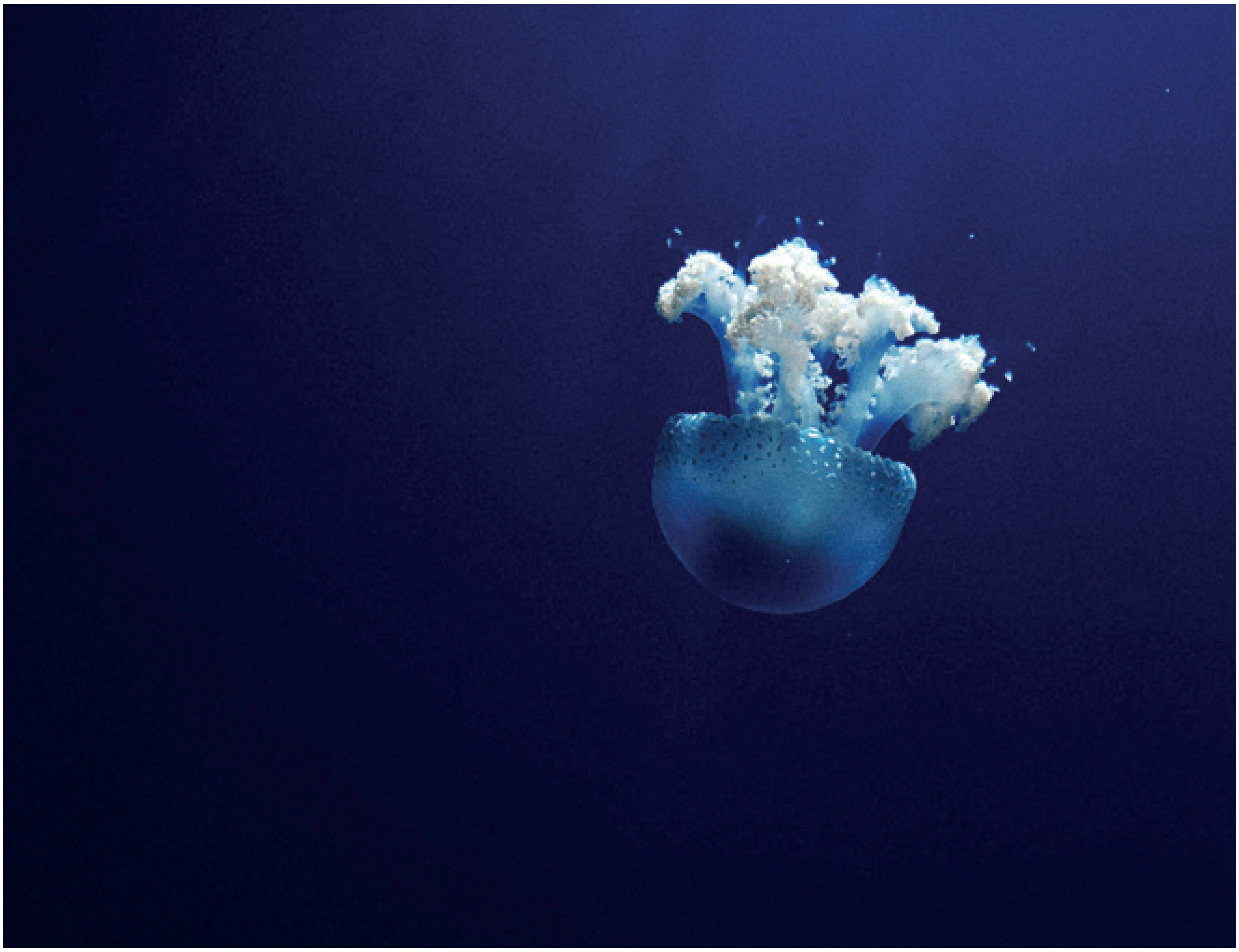
The AI revolution reinitiated this year the case for technological development without harming the environment. For instance, the growing power demands driven by AI's computing needs and the expansion of data centres infrastructure led to renewed investors' interest in companies active in electricity and power generation. For this reason, Nextera and Iberdrola, both active in the power generation business showed superior performance during the quarter with double-digit total returns, significantly outperforming the S&P500 Index. Going forward, we believe that RWE has the potential to benefit from increasing demand for its wind and solar business.

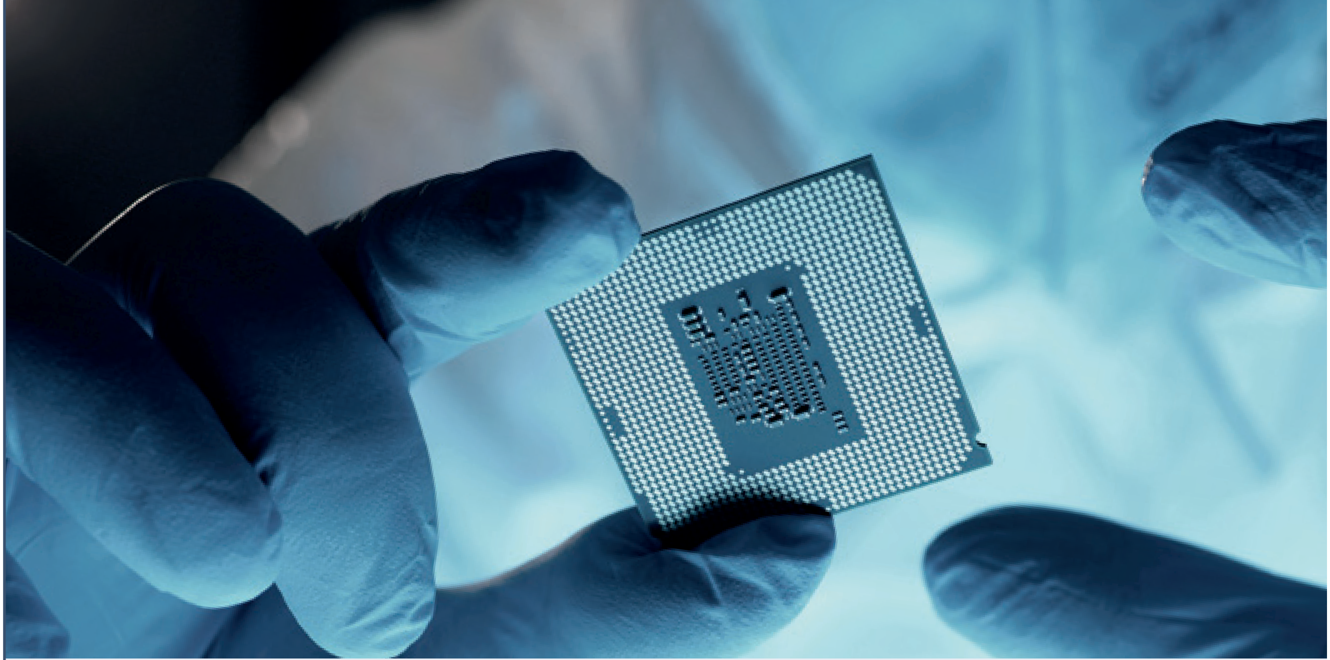
Blue Gold

The winner behind the scenes

Researchers estimate that by 2050, water management will be increasingly important due to water scarcity. Recent studies show that clean and safe water is already considered a key concern worldwide (Forbes 2024). Indeed, efficient management of water resources to overcome climate challenges may continue to increase over time and therefore, we continue to see catalysts for investments in the infrastructure, processes, and control to improve drinking water quality in general.

Our single security selection related to water performed consistently well across the board. The highlight, however, was Veralto, which surprised the market positively with its continued commitment towards water quality. Veralto considerably outperformed both the S&P500 and the Industrial sector, reinforcing its leadership in this space.





Thematic opportunity: ASML

Why we like the stock

ASML is the leader in the manufacturing of chipmaking equipment, and its latest technology (EUV) is essential for microchip advancements needed to support next-generation technologies, including AI.

Catalysts

From the levels seen mid-July, ASML shares corrected around 20%, which we believe it to be an overreaction. This corrections opens an opportunity for new investments.

05

Performance update

YTD data reflects performance in the period 31st December 2023 to 30th September 2024.
Quarter Q3 returns refer to the period 28th of June to 30th September.

DIGITAL FRONTIERS

Company	Recommendation	Rating	Currency	Price	FV	Upside	Quarter return (%)	YTD (%)
Artificial Intelligence								
Advanced Micro Devices	HOLD	★★★	USD	158.10	145	-8.3%	1.15	11.31
Alphabet	BUY	★★★★	USD	164.16	220	34.0%	-8.83	19.02
ASML	BUY	★★★★	EUR	628.10	890	41.7%	-22.53	10.00
Microsoft	BUY	★★★★	USD	417.58	520	24.5%	-3.55	15.05
NVIDIA	SELL	★★	USD	139.50	105	-24.7%	-1.69	145.28
Data centre infrastructure								
ABB	HOLD	★★★	CHF	50.32	48.4	-3.8%	-1.86	34.07
Schneider Electric	SELL	★★	EUR	247.05	208	-15.8%	5.31	31.89
Legrand	SELL	★★	EUR	106.15	94	-11.4%	11.51	12.09
Eaton	SELL	★★	USD	346.02	281	-18.8%	6.07	38.95
Cybersecurity								
Check Point	SELL	★★	USD	207.52	155	-25.3%	16.85	26.19
Fortinet	HOLD	★★★	USD	80.32	77	-4.1%	28.67	32.50
Palo Alto Networks	HOLD	★★★	USD	373.90	366	-2.1%	0.82	15.91
Zscaler	HOLD	★★★	USD	190.82	213	11.6%	-11.06	-22.85
The cloud								
Adobe	BUY	★★★★★	USD	497.49	650	30.7%	-6.80	-13.21
Alphabet	BUY	★★★★	USD	164.16	220	34.0%	-8.83	19.02
Amazon	BUY	★★★★	USD	186.78	180	-3.6%	-3.58	22.63
Microsoft	BUY	★★★★	USD	417.58	520	24.5%	-3.55	15.05
Salesforce	BUY	★★★★	USD	290.51	340	17.0%	6.80	4.48
SAP	BUY	★★★★	EUR	210.70	225	6.8%	7.85	48.37
Industry 5.0								
ABB	HOLD	★★★	CHF	50.32	48.4	-3.8%	-1.86	34.07
Analog Devices	HOLD	★★★	USD	231.08	225	-2.6%	1.26	17.42
Comet	BUY	★★★★	CHF	277.50	285	2.7%	-7.87	26.19
Epiroc	BUY	★★★★	SEK	208.50	222	6.5%	3.78	9.50
General Electric	BUY	★★★★	USD	193.61	180	-7.0%	19.01	86.20
Siemens	HOLD	★★★	EUR	183.92	166	-9.7%	4.42	9.81
VAT Group	HOLD	★★★	CHF	365.80	435	18.9%	-15.43	3.56

ENTERTAINMENT & LIFESTYLE

Company	Recommendation	Rating	Currency	Price	FV	Upside	Quarter return (%)	YTD (%)
eCommerce								
Amazon	**BUY**	★★★★	USD	186.78	180	-3.6%	**-3.58**	**22.63**
Booking Holdings	**HOLD**	★★★	USD	4,371.01	4300	-1.6%	**6.58**	**19.60**
MercadoLibre	**SELL**	★★	USD	2,054.05	1650	-19.7%	**24.86**	**30.57**
Visa	**BUY**	★★★★	USD	290.01	332	14.5%	**4.96**	**6.22**
Streaming								
Alphabet	**BUY**	★★★★	USD	164.16	220	34.0%	**-8.83**	**19.02**
Comcast	**BUY**	★★★★	USD	41.89	48	14.6%	**7.53**	**-2.61**
The Walt Disney	**BUY**	★★★★	USD	96.28	125	29.8%	**-2.67**	**7.03**
Netflix	**HOLD**	★★★	USD	693.01	680	-1.9%	**5.10**	**45.68**

THE FUTURE OF BODY & MIND

Company	Recommendation	Rating	Currency	Price	FV	Upside	Quarter return (%)	YTD (%)
Weight loss								
Eli Lilly	**SELL**	★	USD	921.88	580	-37.1%	**-2.01**	**52.71**
Novo Nordisk	**HOLD**	★★★	DKK	817.10	880	7.7%	**-21.46**	**13.95**
Thermo Fisher	**BUY**	★★★★	USD	605.51	710	17.3%	**11.93**	**16.77**
Silver Economy								
Booking Holdings	**HOLD**	★★★	USD	4,371.01	4300	-1.6%	**6.58**	**19.60**
Sonova Holding	**HOLD**	★★★	CHF	322.80	305	-5.5%	**9.44**	**12.41**
Straumann Holding	**HOLD**	★★★	CHF	128.15	126	-1.7%	**24.21**	**2.59**
UnitedHealth Group	**HOLD**	★★★	USD	561.62	570	1.5%	**15.22**	**12.37**

SUSTAINABILITY

Company	Recommendation	Rating	Currency	Price	FV	Upside	Quarter return (%)	YTD (%)
Blue Gold								
Ecolab	**SELL**	★★	USD	258.80	215	-16.9%	**7.53**	**29.65**
Geberit	**HOLD**	★★★★	CHF	522.80	535	2.3%	**3.88**	**4.98**
Veolia Environnement	**BUY**	★★★★	EUR	30.66	37.5	22.3%	**5.73**	**7.77**
Veralto	**BUY**	★★★★	USD	113.11	135	19.4%	**17.26**	**36.36**
Environment investing								
Iberdrola	**SELL**	★★	EUR	14.12	12.3	-12.9%	**18.05**	**22.63**
NextEra	**SELL**	★★	USD	84.12	71	-15.6%	**20.14**	**42.30**
RWE	**BUY**	★★★★★	EUR	31.58	55	74.2%	**2.41**	**-18.04**
Sika	**HOLD**	★★★	CHF	254.60	280	10.0%	**8.90**	**3.60**
Shell	**HOLD**	★★★	EUR	31.02	34	9.6%	**-11.16**	**2.21**

Contributors

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