Rothschild & Co
Wealth Management

LongRun Equity

QUARTERLY LETTER

Issue 13

APRIL 2025

Investment philosophy

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." — Warren Buffett

We act as long-term business owners investing the wealth you have entrusted us with in a concentrated portfolio of high-quality companies.

Long-term business owners

We want to own the highest-quality franchises for the long term. Little do we care about potential moves in short-term stock prices. What's crucial for us is a company's competitive position, a superior and sustainable business model and the ability to compound earnings. We want management teams that allocate capital as if it were their own. We care about valuation, but take the long-term view, avoiding excessively valued businesses but not shying away from high valuations. When you have a great business that continues to prosper, the share price tends to follow. Conversely, a narrow focus on valuation can lead one astray from truly great businesses. We are determined to avoid this mistake.

Wealth preservation

The avoidance of permanent capital loss has been in our DNA for centuries. We avoid businesses exposed to external factors outside of their own control, which can crush attractive returns. We think long and hard about whether a business will still have a license to operate in the long term and if there are environmental or social risks. Only robust companies in control of their own destiny make the cut. To find these, we conduct deep research to understand business models so we can take advantage of noise and temporary swings in stock prices. We would expect our portfolio companies to do the same.

Compounding

Einstein once dubbed compounding as the "eighth wonder of the world". We couldn't agree more. We look for companies with superior economics and the resulting ability to compound their earnings over the long term. Strong market positions, pricing power, high margins and asset-light business models are the key characteristics that result in high returns on capital and the ability to compound earnings. A sustainable competitive advantage resulting from high barriers to entry is crucial to maintain these high returns in the face of competition, therefore avoiding a permanent destruction of value.

Deep research

We spend most of our time reading annual reports, conducting and analysing expert calls and speaking with management teams and industry experts. We engage regularly with management, talk to industry insiders and conduct grass-roots research. Books on companies and their leaders, industry newsletters and trade publications as well as podcasts are hugely valuable and are often neglected sources of information.

Capital allocation

Managing our clients' money is a privilege and a role we take very seriously. It is important to us that our clients know us and understand how we operate. In a similar vein, we want to understand how the management of our businesses thinks, acts and is incentivised. Capital allocation is the most important job of management, and the great returns of a high-quality business can be diluted via poor mergers and acquisitions or empire building.

We look for management teams with incentives centered on long-term value creation and that have "skin in the game". These are critical if they are to think and act like owners, rather than managers.

Quality over quantity

We prefer to analyse and own fewer companies but understand them properly. We see little value in constant screening for 'cheap' companies and it distracts us from our focus on quality. With financial information abundant, no real edge can be gained based on quantitative information in our view. On the other hand, a deep understanding of business models takes time, but this is the only way we believe it is possible to generate superior long-term performance.

Focus

Focus is front and center of everything we do. We like focused businesses that are easy to manage and understand. We do not need our companies to diversify; we will take care of this ourselves. Our investment universe and portfolio is equally focused, with limited turnover. This allows us to compound our knowledge of our companies in a way that is similar to how we want them to compound their earnings and cash flows.

Bottom line

The combination of the above results in a high-quality portfolio of businesses. LongRun's main financial metrics remain strong, with cross-cycle sales growth of 8%, a 30% operating margin, an operating return on invested capital of 75% and a net debt to EBITDA leverage ratio of 0.5x. On a 3.3% free-cash-flow yield, we consider valuation attractive and expect annualised forward returns in the low double digits for LongRun Equity.

Notes from the manager

LongRun was down 6.6% in Q1 2025

Strategy performance

The strategy was down by 6.6% (in EUR, unhedged) in the first quarter compared to its benchmark which fell 5.4%. On a more positive note, we ended the quarter better than we started it, and that has continued into April.

The main reason for our underperformance were essentially heavy declines in everything 'technology' related, in many cases in the double digits, partially offset by a resilient performance in our more defensive businesses.

Annualised returns since inception of the strategy over nine years ago stand at 10.2% compared to 10.5% for global equities.

Performance drivers

The main positive performance drivers in Q1 were our consumer staples businesses as well as Linde, Mastercard and Relx.

All three consumer staple companies Costco, L'Oréal and Procter & Gamble delivered positive returns in the low single digits, driven by their defensive characteristics in times of increased economic and political uncertainty.

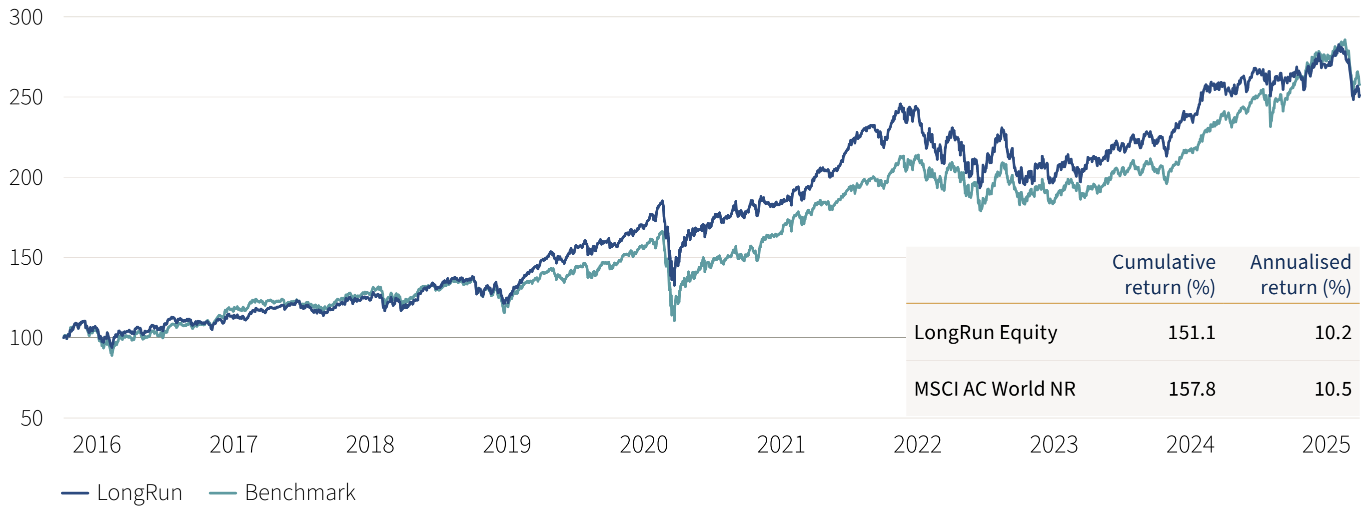
Our best performer was, by quite some margin, Linde, which returned over 11%. As the very definition of a 'local' business it is largely insulated from the potential reintroduction of 'Trump tariffs'.

Mastercard also performed well, rising in the mid single digits following another set of solid yearly results with continued double digit earnings growth.

Performance was even better at Relx which continued with its almost clockwork like delivery of mid single digit sales and even higher earnings growth.

Most technology related companies suffered, with Accenture, Adobe, Alphabet, ASML, Gartner, and Microsoft all falling in the teens. While they mostly posted solid yearly results, and have a large share of revenues 'locked in', they suffered from a change in market sentiment towards 'risk off' which led to a heavy compression in their multiple. Intuit was the only one which fared slightly better.

CUMULATIVE TRACK RECORD (EUR UNHEDGED, %)



	Cumulative return (%)	Annualised return (%)
LongRun Equity	151.1	10.2
MSCI AC World NR	157.8	10.5

Activity

In the first quarter we made two new investments, building positions in semiconductor design software provider Cadence Design Systems and leading aerospace company General Electric Aerospace. No divestments were made, leaving the portfolio with 25 ownership stakes.

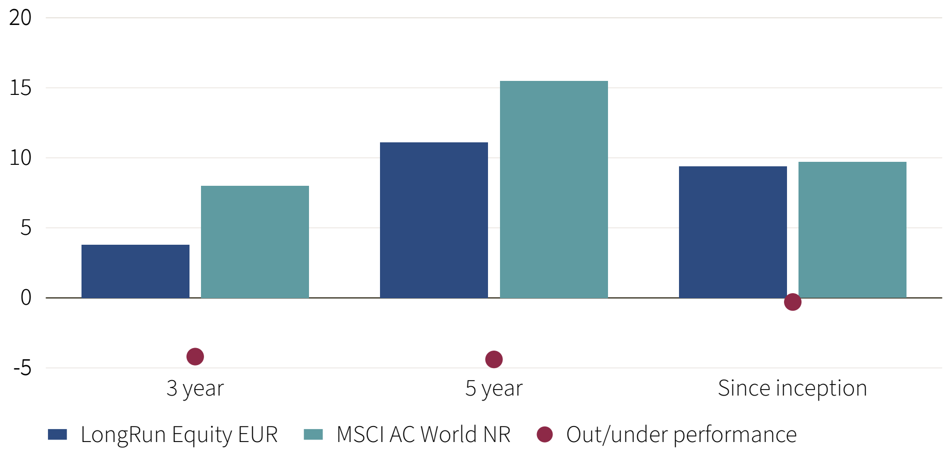
Cadence, alongside its peer Synopsis, is the leading provider of software used to design semiconductor chips, also known as electronic design automation (EDA) software. Together, they control over two thirds of their target market. EDA solutions are absolutely mission critical to the semiconductor industry – particularly as chip complexity increases further – yet they only account for a small share of customer spend. This, coupled with an increased focus on value based pricing, positions Cadence well for further sales growth in the double digits and continued meaningful margin improvements. What's more, the majority of sales are delivered via recurring subscriptions, thus providing strong visibility on future revenues, its notoriously volatile end market notwithstanding. The recent pullback allowed us to build a position in a business with durable double digit growth at just over 30x one year forward earnings.

The crown jewel in GE Aerospace's business portfolio is its commercial aircraft engines segment, accounting for around three quarters of sales and an even a higher proportion of earnings. GE dominates the narrowbody engine segment through its CFM International joint venture with Safran and controls around half of the widebody engine market on its own. The aircraft engine market is characterised by near insurmountable barriers to entry, punitive switching costs and a very large and profitable aftermarket from servicing the installed base of these engines. These factors combined afford GE with strong pricing power. We think GE is in an outstanding position to drive highly profitable growth over the next decades with visibility to match. We seized the opportunity from the recent pullback to build a position in a business with durable double digit growth and almost unparalleled visibility at just under 30x earnings.

ANNUAL PERFORMANCE

	Net asset value	QTD (%)	YTD (%)	Inception to date (%)
LongRun Equity EUR Unhedged	2,356.8	-6.6	-6.6	151.1
MSCI AC World NR	—	-5.4	-5.4	157.8
Out/under performance	—	-1.2	-1.2	-6.7

ANNUALISED PERFORMANCE (%)[1]



ANNUAL PERFORMANCE

	LongRun Equity (%)	MSCI AC World NR (%)
2025	-6.6	-5.4
2024	12.3	25.3
2023	21.2	18.1
2022	-18.5	-13.0
2021	30.4	27.5
2020	10.4	6.7
2019	34.8	28.9
2018	1.1	-4.8
2017	10.0	8.9
2016	5.8	11.1
2015	6.0	4.9

[1] Risk indicator information: The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay. We have classified this product as 4 out 7, which is a medium risk class. This rates the potential losses from future performance at a medium level, and poor market conditions could impact our capacity to pay you. The risk category is not guaranteed and may shift over time. The lowest category does not mean "risk free". Any investment is always subject to risk. Before investing, each investor must ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV)/net inventory value (NIV) are available on our website: am.eu.rothschildandco.com

Case study: MSCI

The 'benchmark' business

In this section, we would like to dive deeper into one of our recent purchases, MSCI, whose business it is to 'help clients build better portfolios'.

MSCI the company

MSCI is a leading provider of decision support tools and solutions for the investment community. Its offerings help clients better understand and analyse the drivers of risk and return, enhance transparency and ultimately build better portfolios. Whilst only spun out of Morgan Stanley in 2006, MSCI draws on over 50 years of deep knowledge of the investment process and expertise in research, data and technology.

MSCI's product and service portfolio is comprised of four main components which in turn are its reporting segments: i) indexes (Index segment), ii) portfolio construction and risk management tools (Analytics), iii) environmental, social and governance and climate solutions (ESG & Climate) and private asset data and analytics (All other – Private Assets). At the nexus of MSCI was the Index business which remains its bedrock to this day whilst the other segments were largely built up via acquisitions.

One of the most intriguing aspects of MSCI's business model – and common thread across its business portfolio – is that the majority (around 75%) of its sales come from recurring subscriptions with client retention rates typically in the mid 90s. This results in exceptional visibility on sales and earnings. The remaining quarter is mainly tied to the assets to which its products are benchmarked.

MSCI Index: the original benchmark business

MSCI's index segment exemplifies a benchmark business — a type of business we both know well and which features prominently in the LongRun fund. So why do we like benchmark businesses? Benchmark businesses are great businesses because i) in benchmarks ones does not really compete with peers (at least once a benchmark has been chosen), ii) they last for decades, if not centuries (network effect), iii) they account for only a very small share of customer spend but are at the same time iv) very mission critical – one needs to have the right benchmark, otherwise one probably won't have a business in the first place or much longer.

For MSCI's index business specifically, once entrenched, it is both cumbersome and risky for an asset manager to change index providers, as such a move could signal instability to investors. It is no surprise that retention rates, a key metric to quantify switching costs, in MSCI's index business consistently exceed 90%, and pricing power is strong, too.

There is a strong need to use a benchmark people know which is why brand plays such a crucial role. This is particularly important for institutional investors which require a recognised benchmark. Along similar lines, there are strong network effects with winner-takes-all dynamics which have led to almost monopoly like situations for parts of the market. The index industry itself is essentially a parallel monopoly with MSCI having an iron grip on international markets, S&P Global dominating in the U.S. and FTSE Russell leading in the U.K. and in U.S. small cap markets.

Important to note is that MSCI employs a somewhat different philosophy than its peers who view its indices as mere 'market barometers' (or, in 'consultant speak', cash cows). MSCI, by contrast, views its indexes as tools which are developed to solve real problems, for example 'what is the right benchmark for my strategy'. The focus on innovation and meeting client needs is a key part of MSCI's culture, and success. Good examples include its astute development of factor, thematic, and ESG indices.

MSCI also employs a distinct go to market strategy, heavily courting asset owners as well as consultants which can act as veritable influencers for the investors they represent (and which have to foot the bill).

The outstanding quality of MSCI's index business is mirrored in its profitability with operating margins comfortably eclipsing 70%. Index is the crown jewel of MSCI's business portfolio, accounting for over 75% of earnings thanks to continued double digit growth.

MSCI's other segments

MSCI's three other operating segments are of high but, unlike index, not outstanding quality, in our view. Important to note is that they often serve the same clients as in the index segment which is the main rationale for having them all under one roof. The 'OneMSCI' culture with a clear focus on product differentiation should help further with making the sum bigger than the parts.

The Analytics segment provides risk management, performance attribution and portfolio management solutions. It has strong complementarity and fit with the index segment. This comes from the fact that as an asset manager, you will be benchmarked to an index and typical services from analytics such as performance attribution, portfolio construction and quantitative portfolio optimisation all will be done relative to an index. Analytics is a mid to high single digit growth business with 40%+ operating margins and a similarly strong cash profile to the Index segment given virtually all sales come from recurring subscriptions. Retention rates are similarly strong at just under 95%.

The ESG and Climate segment is MSCI's fastest growing, having more than trebled in size over the last five years. MSCI was a first mover in ESG which they started to build out organically in the early 2000s. It has since become the clear market leader from which it will be hard to dislodge given the long track record of collecting and analysing ESG data. Margins are still more modest at around 30%+ as MSCI invests to drive growth and cement its market position, but are likely to continue expanding. The subscription revenue share and retention rates are both above 95%, too.

In the All Other – Private Assets segment, MSCI essentially tries to repeat what they have done in ESG and Climate, namely to become the market leader in private assets.

Quality company with quality reporting

The quality of MSCI's business is mirrored in its reporting. Apart from retention rates, the company regularly reports all the other operational key metrics which allows investors understand the business in depth and be a long term business owner with conviction.

Most important is the run rate, which essentially quantifies the contractually locked in revenues from subscription agreements in place over the next twelve months (and which typically exceeds 100% of current sales). The growth in the run rate is even broken down into new subscriptions and cancellations.

Both these metrics, along with sales, operating expenses and earnings are reported in a consistent manner for each segment on a quarterly basis. Furthermore, the effects of changes in scope and currencies are also clearly disclosed, leaving little room for guesswork. As long-term investors – not speculators – we prefer knowing to guessing.

Organic growth consistently at around 10%

Given the high proportion of recurring revenues it should come as no surprise that MSCI's growth is very steady and persistent. In addition, the company benefits from strong pricing power in all parts of its business apart from asset-based fees given the mission critical nature of its services.

On a Group level, organic growth has averaged a strong 10% over the last ten years with remarkable consistency – the only outlier was in 2021 when growth rebounded to +19% post Covid-19. We estimate around one-third of growth typically comes from pricing which MSCI pushes through with vigorous discipline.

Economics extraordinaire

The excellent growth profile of MSCI is even bettered by its profitability and economics which are one of a kind. On a group level, operating margins routinely eclipse 50%, powered by its Index business.

Cash conversion is equally strong, with free cash flow routinely exceeding 100% of earnings. This is mainly due to clients having to pay for their subscriptions upfront which pushes working capital deeply in the negative; clients effectively fund MSCI's operations.

Return on invested capital is similarly stupendous, on account of exceptional profitability and low investment and working capital needs.

Capital allocation

Under the stewardship of visionary founder and owner operator Henry Alberto Fernandez, MSCI has done a commendable job in terms of capital allocation. Organic investments continue to increase its product differentiation, while strategic acquisitions have helped it tap into the growth potential of adjacencies such as analytics, ESG and private markets – each with outsized potential for profitable and durable expansion.

More specifically, MSCI's owner operator culture is borne out with one of the most rigorous and disciplined capital allocation frameworks we have yet to come along, deeply grounded in a focus on value creation. This framework is anchored in optimizing financial leverage, maximize organic investments via its 'triple crown' approach, a payout ratio of 40-50% and opportunistic share buybacks and strategic mergers, partnerships and acquisitions. Of note is that MSCI has generated an IRR of above 30% on the close to USD7bn of stock it has assiduously bought back since 2012.

MSCI going forward

MSCI is a hugely focused, quality company with one of the best businesses, Index, as its linchpin. We think it offers a pretty unique combination of strong secular growth with exceptional persistence, solid pricing power, outstanding profitability and cash generation with a true owner operator culture and management on top. A five year trough multiple of just under 30x forward earnings does not strike us as particularly expensive given these attributes, resulting in the potential for strong convexity in returns. We continue to expect double-digit compounding for years to come.

Business owner's portfolio

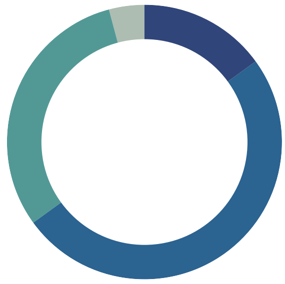
A deeper look into the strategy and its companies[2]

SALES BY BUSINESS (%)

Software	14
Online commerce and advertising	6
Payments	7
Professional Services	19
Capital goods	5
Fast moving consumer goods	8
Medtech	10
Other healthcare	4
Luxury	6
Semi-conductors	6
Industrial gases	5
Other	10

By weight in portfolio, excluding cash.

DEGREE OF PRICING POWER* (%)

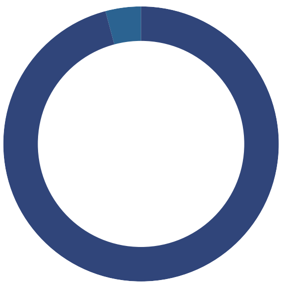


High	15
Medium	50
Low	31
None	4

*In the investable universe, around 5% of companies have medium or high pricing power.

By weight in portfolio, excluding cash.

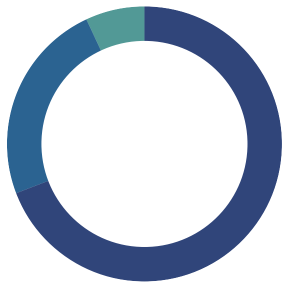
STRENGTH OF COMPETITIVE ADVANTAGE (%)



High	96
Medium	4

By weight in portfolio, excluding cash.

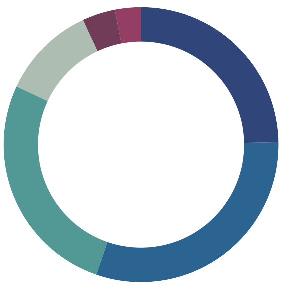
STRENGTH OF SWITCHING COSTS (%)



High	70
Medium	23
None	7

By weight in portfolio, excluding cash.

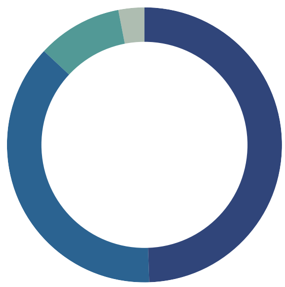
ESG RATING BREAKDOWN (%)[3]



AAA	25
AA	31
A	27
BBB	10
BB	4
Not rated	3

By weight in portfolio, excluding cash.

CARBON EXPOSURE RISK BREAKDOWN (%)



1.5° Aligned	47
2.0° Aligned	26
Misaligned	24
Not rated	3

By weight in portfolio, excluding cash.

[2] Values: all data as at 31 March 2025, Source: Rothschild & Co.

[3] ESG labels only attest to the responsible and sustainable nature of management and should not be considered as a guarantee of capital security or of the fund's financial performance

Geographic and sector allocations and breakdowns are not fixed and may change over time, within the limits of the Fund's prospectus.

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.

To follow a wide set of timely and insightful publications, podcasts and videos please visit our Wealth Insights www.rothschildandco.com/insights

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Values: all data as at 31 March 2025.

Sources of charts and tables: Rothschild & Co and Bloomberg, unless otherwise stated. Past performance is not indicative of future performance and investments and the income from them can fall as well as rise. Strategy performance is shown in EUR, after all fees, in total return, combining income and capital growth. Returns may increase or decrease as a result of currency fluctuations. Please note the strategy's new management started on 01.08.2021

Please ensure you read the Important Information section at the end of this document.

Important information