LongRun Equity Fund

Dear Shareholders of the LongRun Equity Fund,

The global economy moved swiftly through the cycle in 2021, with a strong rebound in GDP growth experienced in the 1st and 2nd quarters of the year driven by the reopening of major economies on the back of the vaccination roll-out and continued fiscal and monetary support. PMIs and the ISM expanded further from already elevated levels. Naturally, the base effect following the collapse of the previous year also played a significant role. Earnings rebounded much faster than market participants anticipated, with the margin of reported earnings compared to estimates expanding for most of the year. Inflation was at the forefront of all discussions as supply chain bottlenecks, rising energy prices and labour supply shortages remained stubbornly in place, eventually forcing a capitulation by the Fed on their view that inflation was transitory. The bond market responded by driving up rates, albeit mostly in the belly of the curve, which we find telling. We also find the penchant for market pundits to recommend a Value style of investing in the face of sticky inflation as misplaced and more likely based on a short history of rising rates rather than rising inflation. It defies our logic that one would want to invest in companies that have no pricing power, especially now at a point where GDP growth will likely flatten, and where margins are at risk. The Siren song of low PEs, a generally short-cut method of valuing businesses, will not tempt us into the waters of bad businesses as we're certain those businesses will turn out to be the monsters depicted in the Greek mythological story.

Portfolio Performance

In 2021, the portfolio returned +30.4% in EUR and +21.2% in USD, the only difference being foreign exchange rates as we do not hedge.

The top five contributors were Accenture, Alphabet, Danaher, Intuit and Microsoft, each of which generated a return in excess of 60% in EUR.

- Accenture was up 73% and contributed 3.3%-points to portfolio performance. The company had an outstanding year, with upgrades to guidance in every single quarter. For its fiscal year 2021, ending in August, it reported organic sales growth of 11% and an 18% increase in earnings per share, both of which are ahead of the longer-term trajectory. The outlook for 2022 is even more positive, with the company (after a very strong Q1 already in the books) now expecting full-year revenue growth of around 20% and an even bigger increase in earnings driven by continued small but steady improvements in operating margins. Accenture remains a high conviction holding for us, with its unique position as a provider of mission critical services that help its clients accelerate revenue growth, transform their operations and, most importantly, build and improve their digital core.
- Alphabet was up 78% and contributed 3.4%-points to portfolio performance. The company is on track to deliver an outstanding year with over 40% top-line growth and the bottom-line expanding at

roughly double that pace. This high operating leverage is the result of the Alphabet's business model anchored on network effects with high fixed costs but equally high incremental margins which furthermore allowed it to absorb continued massive investments in areas such as cloud computing, autonomous driving or streaming to drive long duration growth. The outlook for 2022 is similarly positive, with the company set to benefit from continued strong growth in digital advertising, a rebound in travel as well as continued rapid growth in Google Cloud.

- Danaher rose by 60% and contributed 2.4%-points to the performance of the portfolio. The company is on track for a bumper 2021 year with organic revenue growth of around 20% and earnings rising by over 70%. Growth was strong for both the base business and the diagnostics franchise for which Covid-19 remains a strong fillip. We remain bullish on Danaher which provides mission-critical services, often as the clear market leader, the majority of which are recurring thus providing strong visibility on future growth trajectory. Mid- to high-single digit sales growth coupled with outstanding operational execution should drive continued double-digit earnings growth with the potential for further upside from (historically hugely) value creative acquisitions.

- Intuit delivered a return of 83% and its contribution to portfolio performance was 2.4%-points. For its fiscal 2021, ending in July, the company reported solid mid-teens organic growth in sales with the bottom-line expanding at a slightly higher pace. For the current year, it expects sales and earnings to both grow at over 25%, with solid organic growth further boosted by the acquisitions of Credit Karma and, more recently, Mailchimp. Intuit boasts extremely strong, market leading franchises both in small business software and do-it-yourself tax software, both of which have been further solidified with these two recent, large acquisitions which are testament to the new CEO's more aggressive approach in terms of capital allocation and strategic vision.

- Microsoft increased by 64% and added 3.5%-points to portfolio performance. It reported another outstanding set of results for fiscal 2021, ending in June, with 18% growth in sales and 32% in operating profit. This solid pace of growth continued in Q1 and we expect another year of solid double-digit growth in sales and further improvements in margins driven by operating leverage and the strong pricing power of its businesses. This more than offset continued, significant investments in areas such as cloud computing (MS Azure), security and collaboration software (MS Teams), all of which should allow Microsoft to further deepen its long-lasting customer relationships and grow in the double-digits for another handful of years, at least.

The bottom five contributors were Alibaba, Colgate, New Oriental Education, Tencent and Walt Disney which all generated negative performance

- Alibaba was down 45% and detracted 1.8%-points from portfolio performance. The Chinese internet monolith was hit by a multitude of negative factors, namely, i) the break-up of partially-owned payments provider Alipay as well as stricter regulatory oversight of said lending operations, ii) increased regulation of Alibaba and the wider Chinese technology sectors in areas such as exclusivity provisions ("choose one of two"), data portability, pricing, and platform openness, iii) increased competition and weakening consumer demand in its core retail business and iv) large investments to increase user numbers and engagement and drive future growth. This was exacerbated by founder Jack Ma's criticism of the Government. We do not think the company's earnings power is structurally impaired and think most of these factors will remain transitory and that Alibaba could even benefit from (increased) regulation, as it has done in the past (being able to operate in a walled garden) and as regulation in the past has often mainly benefitted the incumbents. We further think that the policy of common prosperity being pursued by the CCP will result in a broader and more robust consumer base, something which could benefit the premier online portal, or at the very least create a rising tide that will lift all boats.

- Colgate declined by 5% and detracted 0.2%-points from portfolio performance. The demand environment remained solid throughout last year with the company benefitting from its presence in the household care and pet care categories, which benefitted from Covid-19 and people being forced to stay home as a result. This was however somewhat offset by rampant increases on the cost side, namely raw materials and transportation costs which weighed on gross margins. We remain of the view that the company boasts solid pricing power and will, over time, pass these increases on to customers via higher prices. Nevertheless, we have sold out of our position in September due to i) concerns regarding the company's volume growth prospects, ii) continued currency headwinds due to its large emerging market presence which it struggles to offset with pricing, iii) diminishing returns on innovation and increasing competition and iv) a full valuation.

- New Oriental Education declined by 22% and reduced portfolio performance by 0.4%-points. The position was sold by the previous portfolio management team at the end of March, just before further damage was done as the stock price declined by another 85% thereafter. The company was buffeted by adverse regulatory changes, with the Chinese Government requiring home-schooling or off-campus education providers to register for non-profit status. This de-facto means that Chinese tutoring companies will no longer be able to generate any economic, or even accounting, profits and their market values have been decimated accordingly. This also served as a timely warning signal for us to be even more careful when investing in emerging market companies with powerful regulators and an agenda that is often not necessarily aligned with shareholder interests. This is then also reflected accordingly in our valuation assumptions and our position sizing.
- Tencent fell by 13% and detracted 0.2%-points from portfolio performance. Similar to Alibaba, it was hit by adverse regulatory initiatives of the Chinese Government outlined above. Furthermore, increased regulation in online gaming, its main earnings driver, where the regulator is trying to combat the time and money young people spend gaming online, impacted the company negatively. The operational performance also suffered as a result but remained solid with organic growth slowing from the historical 20%+ trajectory to the low double digits. On a more positive note, management maintained its relationship with the regulator well, showing they are politically savvy as well as good operators in their industry. Our long-term view, based on the same tenets as outlined for Alibaba previously, remains positive as we do not think the company's earnings power is structurally impaired. Furthermore, the development of the business offshore will, over time, reduce its exposure to Chinese regulatory risk.
- Walt Disney declined by 8% and detracted 0.3%-points from portfolio performance. The company was hurt by slower than expected growth in Disney+ subscriber figures as well as Covid-19 continuing to negatively impact its theme parks businesses. We think both these factors are transitory and the company is well on track with its move towards a business model with even stronger, direct customer relationships where it can monetize its leading content even better. Subscribers in its direct-to-consumer services have already hit 120m and we expect a doubling in the next handful of years as the company doubles down on investment and leverages its leading franchises such as Star Wars and Marvel. We think the long-term earnings outlook of the leading streaming platforms, such as Disney, is excellent and its existing content and upcoming slate should help it quickly deliver on this promise.

Our 24 businesses collectively delivered a blended operating return on capital of over 50% and grew their organic sales in the double digits organically over the past 12 months. Both metrics improved compared to 2020, in line with the rebound in economic activity and consumer spending which was hurt by Covid-19 in the previous year. Both of these metrics remain well ahead of the overall market, which is why we also consider valuation levels as attractive given both the earnings multiple and the free cash flow yield of the LongRun portfolio are only optically more demanding than that of the market.

Portfolio Activity

As has always been the case, turnover was low for the fund over the year. As discussed in meetings and calls with our investors, the new team has the same investment philosophy upon which the Fund was founded and which has been applied for the selection of equities for our mandates for years. Hence, wholesale changes to the positions were something that never came into consideration as it was simply not necessary. That said, we have our process, and it is only normal that the result of this will produce a pool of potential business that qualify for inclusion in the portfolio.

The positions exited over the course of the year were Legrand, New Oriental Education and Colgate. The former two were sales by the previous manager and based on valuation and doubts regarding the businesses' viability respectively. Colgate was sold by the new team to finance a new position in LVMH. We have written extensively about this in our most recent quarterly publication, which is available up on request.

Adobe was purchased by the previous manager but has also been a business that we've held for a long time. It is the leading provider of software that is used to create, edit and publish digital content. The company is divided into the three main divisions Digital Media (60% of sales), Digital Experience (25%) and Document Cloud (13%), with Print & Publishing (2%) completing the mix. All these divisions are complementary. The Creative Cloud suite, where its famous Photoshop resides, sits within Digital Media. It is the dominant provider of digital content creation software to professionals and boasts one of the most loyal customer bases. Furthermore, the overall landscape is still young, with the total addressable market for Creative Cloud estimated to be in the order of USD63bn in 2024 and expected to continue growing. The market is also fragmented and Adobe, as the top provider, has only just shy of 15% of market share. This leaves a long runway for growth, driven by leveraging the company's core product, Creative Suite, where it enjoys roughly 90% of the market share. The Digital Experience division is an application tool for digital marketing and advertising, providing a single platform for automating and optimizing these processes. Hence, the content is created in Digital Media and distributed using Digital Experience to create a seamless 'production line'.

Last but not least, digital documents are core to the future of work. PDFs and document workflows empower everyone from individuals to the largest enterprises to be productive anytime, anywhere. We're excited about the Document Cloud business and the large addressable market which is projected to grow to USD32bn by 2024.

The combined total addressable market for the three main segments is estimated to be around USD200bn in 2024. It is large and it is lucrative as demonstrated by gross margins in the high 80s.

All of the above is packaged in a subscription-based offering, which was introduced in 2012. This model means that the client has access to the latest versions of their software, thus creating the ultimate user experience and lowering, or even removing, the temptation to find alternatives at the time of upgrade purchases under the perpetual license model. This affords us as in investors a high level of visibility as roughly 90% of revenues are recurring.

Finally, 2021 marked the changing of the manager of the strategy. Whilst this may be a changing of the guard, it is by no means a change of philosophy. Indeed, assuming management of the fund came very naturally for the team due to the high alignment of our own investment principles with those that the strategy was founded on. This was also demonstrated by the large overlap of positions held in the fund and in our own mandates. We have (also) seamlessly transitioned, and you can rest assured that the fund will continue to be managed with the same process, dedication, and resources available to us from the broader Rothschild & Co Group that have served our clients well over the years.

We thank you for your trust,

The LongRun Team.

LongRun's Performance

	LongRun EUR Unhedged[1]	LongRun USD Unhedged[2]	LongRun CHF Unhedged[3]
Cumulated	**+ 142.2%**	**+ 136.9%**	**+ 129.5%**
Annualized	**+ 15.2%**	**+ 15.0%**	**+ 14.2**
2021	30.4%	21.2%	25.0%
2020	+ 10.4%	+ 20.4%	+ 9.6%
2019	+ 34.8%	+ 32.3%	+ 30.0%
2018	+ 1.1%	- 3.8%	- 2.6%
2017	+ 10.0%	+ 25.3%	+ 20.1%
2016	+ 5.8%	+ 2.7%	+ 4.3%
2015	6.0%	-1.0%	+ 5.7%

For further information:

Rothschild & Co Bank AG
Alexandre Poisson
Tel: +41 22 316 02 42
Alexandre.poisson@ch.rothschildandco.com

Disclaimer:

This document is confidential and produced by Rothschild & Co Bank AG ("Rothschild & Co") **for information and marketing purposes only** and for the sole use of the recipient ("you" or "Recipient"). Save as specifically agreed in writing with Rothschild & Co, this document must not be copied, reproduced, distributed or passed, in whole or part, to any other person. **This document does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product or to enter into transactions of any kind.** Nothing in this document constitutes legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to an individual's circumstances. The information in this document therefore neither takes into account the specific or future investment goals nor the tax or financial situation or individual needs of the Recipient. **Interested persons should consult a qualified expert before making investment decisions.**

The **value of investments, and the income from them, may fall as well as rise**, and you may not recover the amount of your original investment. **Past performance should not be taken as a guide to future performance.** Investing for return involves the acceptance of risk: **performance aspirations are not and cannot be guaranteed.** Forward-looking statements, e.g. statements including terms like "believe", "assume", "expect" or similar expressions are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, financial situation, development or performance of the issuer or the instrument and those explicitly or implicitly presumed in these statements, if any. Against the background of these uncertainties you should **not rely on forward-looking statements**. Rothschild & Co assumes no responsibility to update forward-looking statements or to adapt them to future events or developments. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. Income may be produced at the expense of capital returns. The **preservation of the invested capital cannot be guaranteed**. Should an existing client of Rothschild & Co change his/her outlook concerning his/her investment objectives and/or his/her risk and return tolerance(s), he/she shall contact his/her Rothschild & Co client adviser. Additional information can also be obtained from the brochure "Risks Involved in Trading Financial Instruments" issued by the Swiss Bankers Association (www.swissbanking.ch/en/downloads).

Although the information and data herein are obtained from sources believed to be reliable, **no representation or warranty**, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co concerning this document, e.g. in relation to the fairness, accuracy or completeness of it or the information forming the basis of it or for any reliance placed on it by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Rothschild & Co excludes all liability for losses or damages of any kind (both direct and indirect as well as consequential damages), which arise from the use of this document. The **contents of this document may be changed at any time** due to changed circumstances, whereby Rothschild & Co is under no obligation to update once published information.

This document is distributed by Rothschild & Co in Switzerland and abroad. Law or other regulation may restrict the distribution of this document in certain jurisdictions. The contents of this document are not directed or meant for persons subject to a jurisdiction that prohibits the distribution of this document or the investment strategies referred to therein. Accordingly, the Recipient of this document must inform him/herself about any possible restrictions and comply with all applicable legal and regulatory requirements. For the avoidance of doubt, **neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person (including but not limited to US citizens and US residents).** The term "United States" encompasses the United States of America, all of its constituent states, its territories and possessions, and all areas under its sovereign jurisdiction.

Rothschild & Co Bank AG. Registered office: Zollikerstrasse 181, 8008 Zurich, Switzerland. Authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA which has its office at Laupenstrasse 27 in 3003 Bern, Switzerland (www.finma.ch).