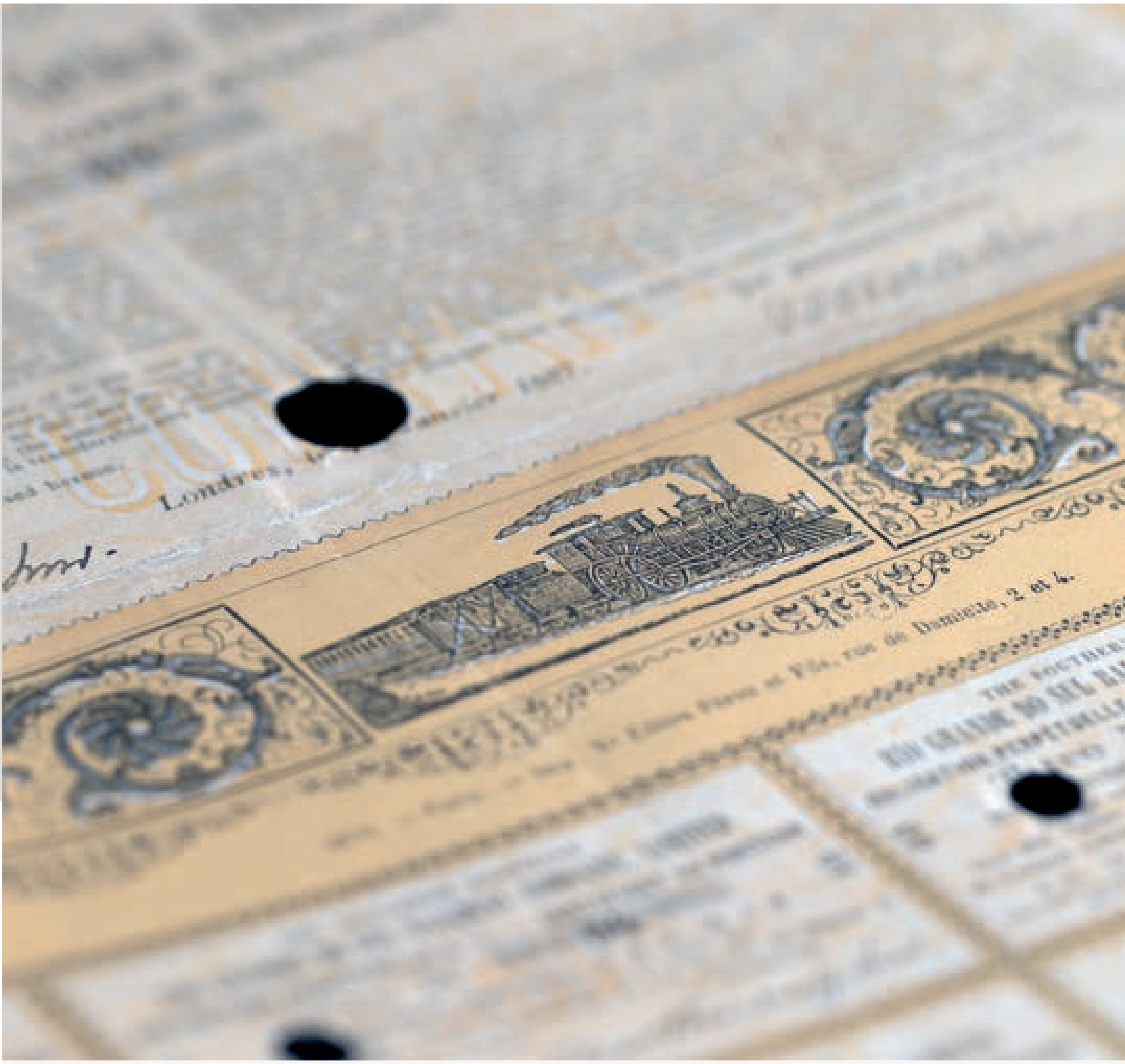
Rothschild & Co
Wealth Management



QUARTERLY LETTER | ISSUE 47 | JULY 2025

Our investment lifecycle

Foreword

Cycles crop up a lot in conversations about investing. There's talk of market cycles, interest rate cycles and credit cycles, to name just a few. Even the reporting of financial news is cyclical, chronicled daily in the rolling rhythm of 24-hour coverage.

Despite all the attention they receive, cycles remain notoriously difficult to predict, and much of the commentary around them is speculative. People want to know where we are in the current cycle, when it will reach its peak or trough, and what the impact will be on investments.

These are reasonable questions, and our strategy team continually monitors the macroeconomic and geopolitical environment to keep our clients informed on what's happening around the world and how it could affect portfolios.

But as our readers will know, we invest from the bottom up, rather than top down.

We don't try to anticipate interest rates or inflation a year from now, or pinpoint when and where the next market shock will occur. These will only ever be educated guesses, and few disciplines are as frequently humbled as economic forecasting.

Instead, our aim is to own high-quality businesses that we believe will perform well across a range of different market conditions.

That's why we prefer to focus on a different type of cycle: the lifecycle of an investment. Unlike other cycles, this is one that we can control, giving us greater confidence in the outcomes.

By following a clear philosophy and a consistent, research-led process, we believe we can make better investment decisions. In doing so, we seek to preserve and grow your wealth through whatever the wider market cycles happen to bring.

Thank you for reading.

Helen Watson
CEO, Rothschild & Co Wealth Management UK

Cover: This is a detail from a bond issued by The Southern Brazilian Rio Grande Do Sul Railway Company Limited in 1887. As early as 1858 the Rothschilds issued their first loans to Brazilian railway companies. The railways opened up Brazil's interior, enabling the coffee planting business to expand enormously.

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Our investment lifecycle

Every investment lifecycle tells a story, and like any good story, there's a beginning, a middle and an end.

It all starts with an idea. The best ideas become holdings, and in time, we hope, those holdings will mature into long-term investments that remain in our portfolios for many years.

Occasionally, circumstances change or opportunities elsewhere become more compelling. When this happens, the lifecycle ends with divestment. Knowing when to step away[1] is just as important as knowing when to invest.

Those are the broad strokes, but sound investing lives in the fine detail. In this letter, we'd like to delve into that detail, plotting the path of a typical 'return' asset investment[2], as well as the thinking and research that underpin each step of the journey.

So, to quote Lewis Carroll's *Alice in Wonderland*, let's "begin at the beginning" with a closer look at what inspires us to first consider an investment.

GENERATING IDEAS

We're often asked where we get our investment ideas. At such times, we're reminded of the words of Canadian novelist Margaret Atwood, who said her ideas "can come from anywhere".

While undoubtedly true in our case, it's perhaps not the most enlightening answer, so we'll be more specific!

Our ideas are drawn from many places, including our own reading and experience, other investment professionals, industry conferences and events, and the people in and around the companies we're researching.

When we pursue an idea, we do so with our core objective in mind: to preserve and grow the real value of our clients' wealth over time. We want investments that can deliver sustainable, inflation-beating returns while limiting the risk of major losses.

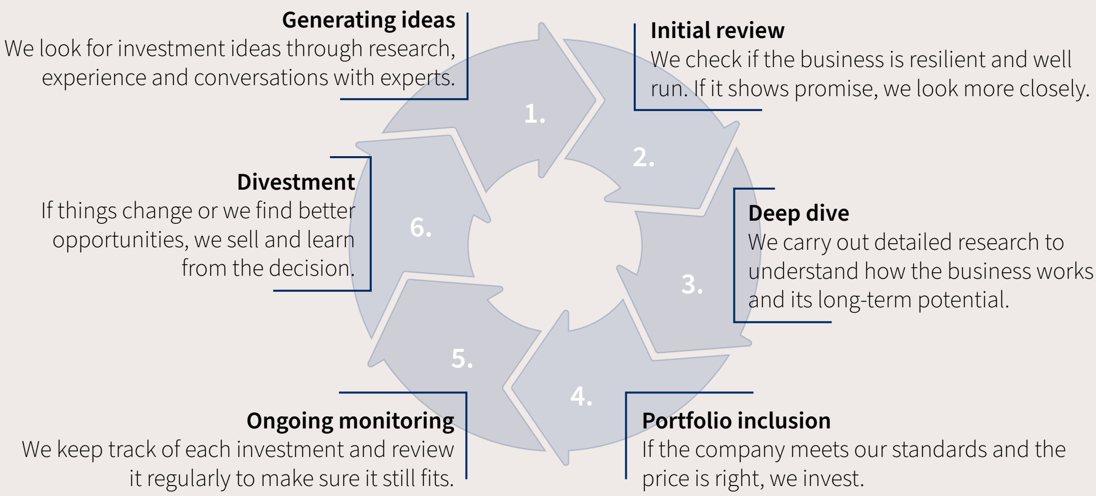
The obvious starting point for ideas is our own people. Despite having a global presence and perspective[3], we strive to create a close-knit, collaborative culture where curiosity and constructive debate are encouraged.

[1] Rothschild & Co Wealth Management UK – Quarterly Letter – Saying goodbye

[2] Our growth-oriented return assets are companies or funds that aim to provide above-inflation returns over the long term. For more information on how we build portfolios, please read our *Quarterly Letter*, 'Our Investment Approach'.

[3] Rothschild & Co Wealth Management UK – Quarterly Letter – A global perspective

THE INVESTMENT LIFECYCLE



As a result, we've found that new ideas more frequently come from hallway conversations or informal meetings than tools like quantitative screens, which we use only sparingly. More often than not, they filter out many of the great opportunities that we'd like to keep in.

Fresh perspectives are always welcome, and some of our best ideas come from new colleagues who bring a sharper focus to industries or companies we may have previously overlooked.

That said, we recognise we don't have a monopoly on ideas or talent, and we're happy to take inspiration from others, including the third-party funds that we invest in and professionals from across our extensive global network[4].

We also feel privileged to have many respected industry leaders, entrepreneurs and experts as our clients. Oftentimes their insights can be some of the most valuable and influential to draw upon.

Ultimately, what matters most to us isn't the origin of an idea, but where it leads, and whether it stands up to scrutiny along the way. With that in mind, the next stage in the investment lifecycle is an early-stage review.

THE INITIAL REVIEW

Turning good ideas into great stories isn't easy, even for the experts.

Agatha Christie, Stephen King and William Faulkner write in wildly different styles and genres, but they all agree on one thing: the importance of putting the hours in.

Between them, Christie and King have penned more than 120 novels and hundreds more short stories. King writes 2,000 words every day of the year. Christie, meanwhile, was never off the clock, often plotting her best mysteries while eating apples and drinking tea in the bath.

As for Faulkner, he famously said: "I only write when inspiration strikes. Fortunately, it strikes at nine every morning."

In the investment world too, a good idea is more likely to flourish when supported by a disciplined, rigorous approach. That's why a company will only earn its place in our portfolios after we've tested its narrative through our own in-depth research and analysis.

With such a vast investment universe to cover, however, investigating every business from all angles would be an impossible task. Fortunately, many can be ruled out during an initial review because it quickly becomes obvious they do not demonstrate what we seek in an investment.

Which is to say, a robust business with strong management.

For us, 'robust' means a company that has a resilient business model and sustainable business practices. We often ask ourselves: if markets closed tomorrow and didn't reopen for 10 years, would we still be comfortable holding this investment? It's a high bar, and only a select few meet it.

A company's management team also matters. Not just how capable they are, but how they think. We're looking for leaders who allocate capital sensibly, act with integrity and see themselves as stewards. Often, the standout teams are those with real skin in the game, such as founders, owner-operators, or long-standing executives whose wealth and reputation are tied to the business.

An initial review assesses these criteria relatively broadly, but if a company shows promise, we then move on to a more detailed investigation.

[4] Rothschild & Co Wealth Management UK – Quarterly Letter – The power of networks

Ultimately, what matters most to us isn't the origin of an idea, but where it leads, and whether it stands up to scrutiny along the way.

Our deep-dive reviews help us truly understand a business – its history, how it operates, what drives its performance, and how it might evolve over the next decade and beyond.

A DEEP DIVE

"Ideas are like fish … if you want to catch the big fish, you've got to go deeper." David Lynch, film director and writer.

Our deep-dive reviews help us truly understand a business – its history, how it operates, what drives its performance, and how it might evolve over the next decade and beyond.

While initial reviews identify some of the reasons why an investment might be attractive, a deep dive is an opportunity to test those hypotheses. The aim isn't to build a case for owning the company, but to examine those hypotheses by attempting to answer specific questions. This helps uncover details – good or bad – that others may have missed.

Much of this work, while crucial, isn't always glamorous. Every year, we spend thousands of hours reviewing annual company reports, trade journals and other industry analyses. Data analysis and cashflow modelling help us dig deeper into whether a business makes financial sense.

Though these processes demand time and attention, we are also piloting AI solutions to assist with some of the heavy lifting across all stages of our investment lifecycle, including deep dives and ongoing monitoring.

Reading lists and analysing spreadsheets aside, we also carry out more interactive – and dare we say, more enjoyable – work, such as meetings and conversations with experts in areas where we're keen to learn more. This can be anything from insurance claims management and aviation supply chains to laboratory testing services and vertical market software.

As mentioned earlier, we also speak to people associated with the business under review, including past and present employees, customers and suppliers.

Where we can, we like to meet in person. Research trips and on-site visits, in particular, often reveal insights you can't pick up from behind a desk, and we place significant value on building strong relationships[5] face to face.

Once our research is complete, we review the findings as a team. We're always conscious of the risk of cognitive biases, so we actively entertain opposing views and conflicting evidence.

If the business meets our criteria, it will be added to our Master List, although this doesn't guarantee a place in our portfolios straight away. Before investing, we wait until the share price is attractive and the company fits well alongside our other holdings.

MONITORING INVESTMENTS

There is a popular Aesop's fable which tells the tale of a dog with a bone that sees its reflection in the water. Mistaking it for another dog with a bigger bone, the covetous canine snaps at it, and loses the real bone in the process.

There's a lesson here for investors. Exciting opportunities often steal the spotlight, but chasing something new can mean losing focus on what you already have.

As long-term investors, effective monitoring is vital for us, and some of the most important investment decisions we make happen after we've added a company to our portfolios.

All our holdings are fully reviewed on an annual basis throughout the year, with our analysts keeping up to speed with any developments that could affect their performance.

[5] Rothschild & Co Wealth Management UK – Quarterly Letter – The art of building strong relationships

A good example is the recent news that Warren Buffett would be stepping down as chief executive of Berkshire Hathaway after 60 years at the helm. While the timing of the announcement came as a surprise to many, ourselves included, the decision itself feels right.

Berkshire Hathaway is one of our longest-held investments, and a changing of the guard in management, especially someone of Buffett's stature, is always a moment for further reflection.

However, we've been prepared for the 94-year-old's retirement for some time and remain confident in the company's future under new leadership. Greg Abel has long been identified as Buffett's successor, and he's taking over a company that's in excellent shape and performing well.

We also had the opportunity to speak to a Berkshire board member after the annual general meeting, and they assured us that Abel has widespread support from senior colleagues and will be working very closely with the operating businesses day to day.

It's in situations like this that holding a meaningful stake in a company brings real value. Our long-term investment approach[6] often affords us a seat at the table, or at least access to the people sitting around it.

That doesn't necessarily mean we can influence their decisions, particularly in larger companies like Berkshire. But in other instances, we've been able to engage in ways that support positive change – change that could have an impact on returns.

And it is here, with ongoing monitoring, where our investment lifecycle ideally ends. This isn't always the case, as we'll explain later, but we hope investments will remain in our portfolios for at least 10 years, and preferably much longer.

[6] Rothschild & Co Wealth Management UK – Quarterly Letter – Looking to the long-term

Our investment lifecycle in action

Having mapped out a typical investment lifecycle, we now turn to a real example to bring it to life: Canadian Pacific Kansas City (CPKC), a railroad operator we added to our portfolios in 2023.

THE NORTH AMERICAN RAILROADS

Few industries are as tightly woven into the fabric of the American story as the railroads. Since the completion of the first transcontinental line in 1869, North America's rail network has not only shaped its physical and cultural landscape, but also its economic one.

Cheaper, faster freight revolutionised commerce, enabling businesses to sell far beyond their local markets. Fast-forward to today, and North America's seven main freight railroads move around 1.7 billion tonnes of goods across 140,000 miles of track each year.[7]

Trains have also evolved a lot over the last 200 years. A typical North American freight train is now over a mile long – sometimes they can even reach several miles long.

But what is the investment case for railways, and CPKC in particular? Again, let's begin at the beginning of our story – the ideas phase.

OUR TRAIN OF THOUGHT

We'd been aware of opportunities in the North American rail industry for some time, both through our ongoing research and our investment in Berkshire Hathaway, which owns BNSF Railway.

BUILDING A NETWORK

The Rothschild family have a long history of supporting railway development across the globe, including in North America. During the 19th and early 20th centuries, they helped finance the construction of major lines, such as the Milwaukee Road, the Pennsylvania Railroad and the Grand Trunk Pacific.

Grand Trunk would eventually be nationalised and merged into the Canadian National Railway, which remains one of just seven Class 1 freight railroads in North America today.

However, in early 2023, we returned to the sector with fresh eyes. We were prompted by the arrival of a new analyst at Rothschild & Co who had many years' experience of the railroad industry. There was also a significant merger on the horizon between two major railroad companies, Canadian Pacific (CP) and Kansas City Southern (KCS).

American railroads generate more than $230 billion of economic activity each year.[8]

[7] Train Facts You Might Not Know, Union Pacific, 29 March 2022

[8] Railroads Drive $233 billion in Economic Activity, Association of American Railroads, 28 February 2025

The above mentioned investment is made within the portfolio at the discretion of Rothschild & Co Wealth Management UK Limited. It is not shown as a solicitation, recommendation or promotion on a standalone basis.

STARTING THE JOURNEY

Our previous research into North American railroads revealed it was an ecosystem with several sustainable competitive advantages that are almost insurmountable.

Much of the rail network sits on land gifted to the rail companies in the 1800s. Today, that infrastructure is so well-established that building a competing system would be prohibitively expensive and practically impossible, locking in regional monopolies and oligopolies with real pricing power.

So what set CPKC apart? The merger was key. It created a 20,000-mile network from Canada, through the US, and into Mexico – a first for the continent. A single uninterrupted freight service from north to south now provides faster, cheaper and more reliable transport than any rivals.

Meanwhile, the CPKC management team was considered best-in-class by many industry stakeholders, including the company's competitors. Current CEO, Keith Creel, is a protégé of legendary rail operator Hunter Harrison, and was instrumental in turning around the poor performance of CP when he joined the company in 2013.

Following our initial review into the company's business and management, it was clear that CPKC was a business that warranted closer attention.

INTO THE ENGINE ROOM

We won't bore you with everything that went into our CPKC deep dive. The ins and outs of the 4,500 pages of merger filings we scrutinised wouldn't make for the most exciting Quarterly Letter. The same can be said for the dozens of call transcripts, annual reports and other reading that we did.

Suffice it to say, no page was left unturned.

Naturally, the documents only tell part of the story, so we also spoke with the people who know CPKC and its market best. That included calls with the company, its former employees, a major competitor and former

In 1903, the Grand Trunk Pacific Railway Company entered into an agreement with the Canadian government to build a railway system from the Atlantic to the Pacific. To meet the huge cost of construction of the line from Winnipeg, Manitoba to Prince Rupert, British Columbia, N M Rothschild & Sons issued £3 million worth of bonds for the Grand Trunk Pacific Railway Company in 1905, with a further bond issue in 1909 of £2 million. Work began in 1905, and the Grand Trunk Pacific Railway opened to traffic in 1914.

employees of its rivals. Talking to key customers, as well as specialists on Mexican politics and law, helped us fill in some blanks.

To complement our in-house research, we made two field trips – one to Vancouver and one to Kansas City – where our research team met with rail operators, port authorities and regulators.

What we learned during our deep dive was compelling. The merger had created a network no one could easily match.

On the direct line from Chicago to Mexico, CPKC cut transit times to just 3.9 days – roughly the same as trucking (at a lower cost) and far faster than traditional interchange rail routes, which can take nearly a week.

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FREIGHT ON A GRAND SCALE

CPKC

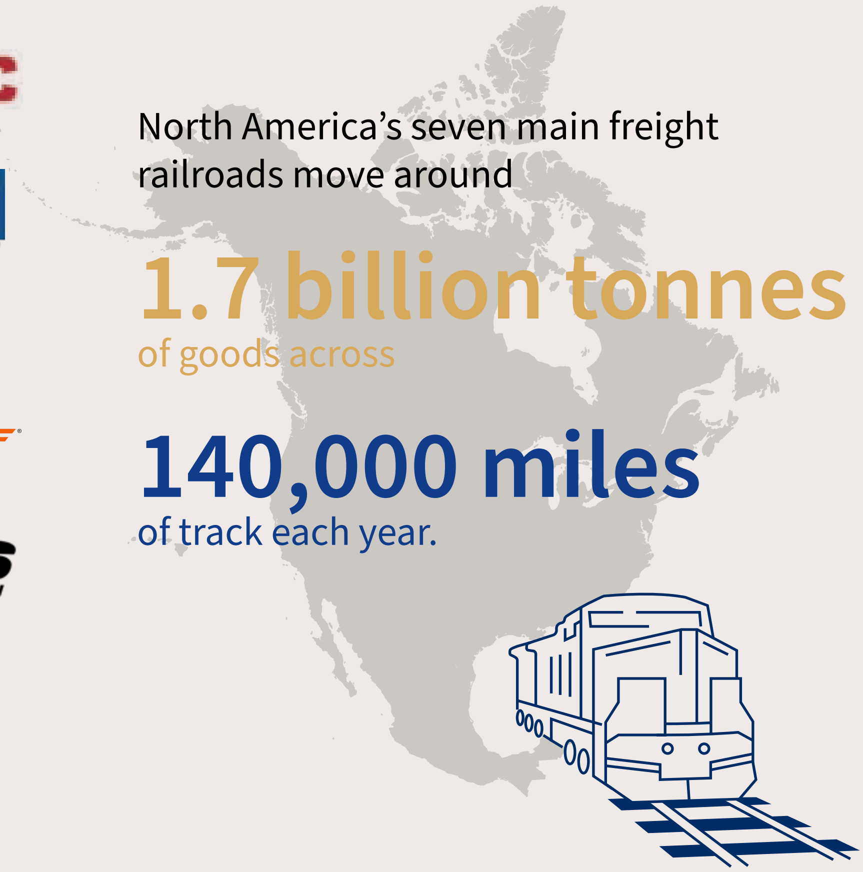
CSX

CN

BNSF RAILWAY

NS NORFOLK SOUTHERN

UNION PACIFIC



North America's seven main freight railroads move around

1.7 billion tonnes

of goods across

140,000 miles

of track each year.

RECOGNISING RISKS

Every investment faces risks, and for CPKC, we identified three areas of focus:

- **Merger execution:** Combining two large rail networks isn't easy, and done poorly, could dramatically affect future returns. However, CP had owned KCS for two years in trust before the merger, giving the team a long runway to prepare.
- **Political and regulatory change:** Infrastructure assets are exposed to policy shifts, but we believed most scenarios – including tougher US safety rules or political noise in Mexico – were either unlikely or manageable.
- **Economic sensitivity:** Freight volumes naturally fluctuate with economic activity, but railroads should remain fairly resilient in the event of downturns.

That speed is already proving commercially valuable. Americold, the largest cold-chain logistics provider in the US, has since shifted some business from road to rail, marking the first time it has transported fresh produce by train over the US–Mexico border.

Equally important to us was the quality of the management team, who are seasoned and dedicated operators with a proven track record and a clear, long-term vision.

KEEPING TRACK

Since investing, we've remained closely engaged with CPKC. Our team made another trip to the US last year, spending further time with the company's leadership, its competitors, key customers and regulators, as well as attending two industry conferences.

So far, the business is progressing as we'd hoped. Volumes are growing strongly — three times faster than the industry average — and the company has won new customers without lowering prices. When a strike temporarily shut down parts of the Canadian network last year, CPKC was well prepared and bounced back quickly.

One area we're monitoring particularly closely is the renewed focus on tariffs following President Trump's re-election. However, while trade policy can shift, many goods moved by rail, such as Canadian oil, lumber and minerals, aren't easily replaced. If there is a push towards more domestic manufacturing, that may even increase demand on CPKC's network.

For now, we're keeping a watchful eye on new developments, but nothing yet has changed our long-term view that CPKC deserves a place in our portfolios.

Saying goodbye

We approach every investment with a long-term view, but prudent investing means recognising when to let go.

This is not something we expect to do too often. As we've hopefully demonstrated, by the time we invest, we've spent long enough with a business to feel confident about its prospects.

But sometimes the world changes, or our understanding of a business deepens in a way that leads us to a different conclusion. To paraphrase economist John Maynard Keynes, 'when the facts change, we change our mind'.[9]

On these occasions, our decision to sell isn't about headlines or short-term noise. It's usually quieter than that – a shift in fundamentals or a company's direction.

Take Middleby, for example. We originally invested in the commercial food equipment company in 2018, drawn to its scale, strong customer relationships and dependable management. For restaurants, a reliable supplier is mission-critical, and Middleby had built deep trust within the sector.

But when COVID hit in 2020, the facts changed. With hospitality shut down, demand collapsed. We revisited every company in our portfolios to assess pandemic resilience, and Middleby stood out as being one of our most exposed holdings.

Middleby's debt was manageable in normal times, but these were far from normal times – it was possible the company might be forced to raise fresh capital or sell assets under pressure. As a result, we believed there were better investment opportunities elsewhere and exited in full.

When a company leaves our portfolios, and once a little time has passed, we review the decisions we made in a post-mortem – what went well, what didn't, and what we might do differently next time.

Done thoughtfully, these reviews help us build a stronger foundation for our next ideas. For us, they mark the closing of one chapter in the investment lifecycle, and help us begin the next with greater clarity and conviction.

[9] Rothschild & Co Wealth Management UK – Quarterly Letter – Changing your mind

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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.

Important information