



QUARTERLY LETTER | ISSUE 48 | OCTOBER 2025

The importance of culture

Foreword

Great companies often credit their culture as a driving force behind their success. They're usually not wrong, but ask those businesses what makes their culture so effective, and you'll rarely hear the same answer twice.

That's because there's no secret ingredient to cultivating the right culture. Every business has its own history and character, and the type of culture that flourishes in one place may wither in another, like a seed planted in the wrong soil.

Look closely, however, and clear patterns tend to emerge. Many companies share common cultural traits that indicate they are resilient businesses with sustainable business practices.

These are the kinds of companies that we believe are more likely to perform well over the long term. By extension, they are the companies we want to invest in.

But culture doesn't just matter to us as investors. At Rothschild & Co, our culture acts as a plumb line – the values we hold are a firm anchor reminding us of who we are and what our purpose is.

Those values keep us focused on our goal of preserving and growing your wealth with patience and conviction, while delivering exceptional client service. They also provide the stability and continuity clients expect during times of transition.

With thanks for your continued trust.



Helen Watson
CEO, Rothschild & Co Wealth Management UK

Cover: Illustration of the Rothschild family coat of arms from the Imperial letters patent granting the Austrian Baronial title to Salomon von Rothschild (1774-1855) and his brothers, signed and sealed by Emperor Francis I, 29 September 1822.

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Wealth Management
Publication date: October 2025.
Values: all data as at 30 September 2025.



The importance of culture

Corporate culture is a fuzzy concept, difficult to put into words. So difficult, in fact, that you can find more than 50 definitions in academic literature.

As you might expect from academia, they don't always roll smoothly off the tongue. One particularly uninspiring entry summarises company culture as:

“Psychologically meaningful molar descriptions that people can agree on and that characterise a system's practices and procedures.”

It's hardly the kind of motivational messaging you'd expect to see emblazoned on office walls anytime soon.

Molar descriptions aside, there are simpler ways to sum up what culture means.

The Economist's Andrew Palmer wryly describes it as “how people behave when the boss is not looking”.¹

For our part, we're quite partial to Gallup's interpretation: culture is how we do things around here.

As investors, we're always interested in how companies do things. Or, more accurately, how well they do things. A company's culture gives us important insights into the quality of both a business and its management.

We're also very proud of our own culture at Rothschild & Co. Our business is built on more than 200 years of history and seven generations of family ownership. This rich heritage indelibly shapes the way we do things and is integral to how we support our clients.

In this Quarterly Letter, we'd like to reflect on what contributes to a great culture and why it's important to us, both as investors and as a business.

THE CULTURE DIVIDEND

Culture matters because it sets the tone for how a workplace functions. In a healthy culture, trust runs in both directions – leaders are credible, decisions are fair and people feel respected.

It can also give work meaning: when you are proud of what you do and where you work, that energy carries through to clients and customers. In the long run, culture is the glue that holds an organisation together as it changes and grows.

However you choose to define a good culture, there is a growing consensus on one thing at least – companies that have them tend to perform well over the long term.

A London Business School study found that investing £100 in a portfolio of the 100 best places to work in the UK achieved returns more than four times higher than the FTSE All-Share index from 2001 to 2023 – 1,047% compared to 231%.²

Prior research on the top US companies had similar results, suggesting there is a clear ‘culture dividend’ for investors to consider.

So what makes for a great culture? Much has been written on this topic, and we do not claim to offer a definitive guide here. But below are our thoughts on the values we believe are important, drawing on examples from across the business world.

Some of the companies we discuss are in our portfolios, others are not. Culture is not our only investment consideration, after all. Nevertheless, we believe they all have interesting stories to tell about how culture helps cultivate long-term success.

1) ACT WITH INTEGRITY

Henry Engelhardt, the founder and CEO Emeritus of insurance company Admiral Group, once found himself in a situation that reads more like fiction than fact.

In the early 1980s, while working at a futures brokerage in Chicago, he received an anonymous phone call from a mysterious man offering to sell him the customer list of a key competitor.

¹ How to build the right corporate culture, The Economist, 16 June 2025

² The Culture Dividend: Financial Benefits of Great Company Culture, Great Place to Work, 24 October 2024

What followed was an FBI sting, an action-packed chase through Chicago's business district and criminal charges. Not for Henry of course! He had called the authorities, and they asked him to play along to catch the perpetrator.

"Maybe my decision was the obvious one. But any of us can face temptation. That data would have been very valuable to our firm and me. But I listened to my gut: Do the right thing," he writes in his book, *Be a Better Boss*.³

For Henry, it may have been the 'obvious' choice, but there are many examples of businesses that fail similar tests, even when integrity is proudly stated as a core value.

At the peak of Enron's success in the late 1990s and early 2000s, visitors to the company's headquarters in Houston were greeted by four words: Integrity. Communication. Respect. Excellence.

They appeared not only on bright banners in the lobby, but also on conference room walls, desk toys and company notepads.⁴ The values even featured prominently in Enron's final annual report in 2000, published just months before the company collapsed when its massive financial fraud came to light.

These two contrasting tales of integrity highlight a key challenge in assessing a company's culture: the difference between what they say and what they do.

Industry awards can offer some clues. Admiral is a stand-out in this area – the appendix of Henry's book has several pages listing the dozens of awards and nominations the company (and Henry himself) have for being a great place to work.

Before we invest in a company, however, we always do our own independent research and analysis. We want to see the culture for ourselves.

There is no substitute for meeting with senior managers face to face, witnessing the workforce in action, and talking with employees, both past and present, about their experiences.

The relationships we build during this process often only get stronger after we invest, as we begin to learn more about the business and its people. Whether a company's actions match its stated values then becomes much plainer to see.

This is why we are confident that a business like Admiral, which has been in our portfolios for more than a decade, will act with integrity when it truly matters.

We seek to give clients the same assurances with regards to our own conduct. Our business was founded on three principles – *Concordia, Integritas, Industria* (harmony, integrity, industry) – that we strive to uphold today.

And by working closely with you and your family over many years, we hope to demonstrate, quietly and consistently, that our actions live up to those words.

2) BUILD GREAT TEAMS

A jerk, a slacker and a pessimist walk into a workplace. What happens next? While it may sound like the set-up to a joke, this was an experiment conducted by an Australian university to measure the impact of bad behaviour in teams.

The study placed an actor among students without their knowledge during a work project, and he was told to play one of three 'toxic' roles to see how the team's performance was affected.

Portraying the slacker, the actor remained disengaged and distracted by his phone. As a jerk, he was sarcastic and demeaning, while his pessimist persona frequently described the task as impossible, repeatedly saying the project would fail.

³ *Be a Better Boss* (Kindle Edition), p158-159, Henry Engelhardt, 2023

⁴ Twenty years later, could another Enron happen? *Fraud Magazine*, 1 November 2021

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Dozens of trials got the same result: a single individual behaving badly brought down the performance of the whole team, even when the other members were incredibly talented. One bad apple really does spoil the bunch.

Not only this, but the type of behaviour was contagious – the slacker caused others to slack; the jerk created other jerks; and the pessimist turned everyone into naysayers. Teams with just one toxic individual performed 30–40% worse than other groups, with the pessimist having by far the biggest impact.

Fortunately, the opposite is also true. Good behaviour and positivity spreads, and businesses that build great teams foster great cultures.

According to Netflix CEO Reed Hastings, research like this is one of the reasons why the company strives to build teams exclusively filled with high performers. He believes it has been pivotal to the streaming service's culture of success.

“We found that being surrounded by the best catapulted already good work to a whole new level,” he explains.

“When every member is excellent, performance spirals upward as employees learn from and motivate one another.”

Many businesses would argue they also aim to build exceptionally talented teams, but Netflix introduced specific – and sometimes controversial – policies to achieve it.

One is the ‘Keeper Test’, which is summed up by Hastings as “adequate performance gets a generous severance”.⁵ Employees who are deemed good but not great are often let go.

It may seem counterintuitive, but this has led to the company's voluntary staff turnover dropping to 3–4%, far lower than the industry average of 12%.

Netflix also pursues a policy of radical candour. Employees are trained to give honest feedback to colleagues constantly, including senior management, even when it's uncomfortable. In fact, especially when it's uncomfortable.

The spirit of Netflix's philosophy is one we recognise, although it must be said that we differ in our execution.

We share the belief that great teams are the foundation of great cultures, and Rothschild & Co could not have endured for generations without the skills and dedication of our people.

There is no ‘Keeper Test’, but we are nonetheless very proud of building a culture where employee turnover is extremely low, in an industry where stability and continuity is crucial.

Honest communication is also at the heart of what we do, both in the way we invest and how we talk with you, our clients.

For example, every investment decision is discussed at length by our teams, with robust – but diplomatic – back and forth to ensure no stone is left unturned.

And when it comes to decisions around your wealth, we will always tell you our thoughts on the best course of action, which, on occasion, may differ from yours. However, it is through this openness that trust is built, ensuring we can proceed with greater clarity and conviction.

That said, we hope our clients would describe this approach less as radical candour, and more as respectful honesty.

⁵ No Rules Rules: Netflix and the Culture of Reinvention (Kindle Edition), p135, Reed Hastings and Erin Meyer, 2020

3) ADAPT OVER THE LONG TERM

It will come as no surprise to our readers that we favour a long-term approach. We apply this both in the way we invest – with the intention of holding companies for several years, although preferably longer – and the type of businesses we invest in.

That is, those with disciplined capital allocation, a proven track record and management that thinks well beyond the next set of quarterly results.

We do not wish to belabour those points too much here. Our recent *Quarterly Letter*, ‘Looking to the long term’ sets out our thinking on these concepts more fully.

Still, we would be remiss not to mention the crucial role that culture plays in helping businesses maintain a long-term perspective.

In our view, the best cultures encourage continuity, with change. To understand why both are necessary, let’s turn to a pair of competing philosophies: Lindy’s Law and Seneca’s Cliff.

The Lindy effect argues that you can predict how long something will survive based on how long it has already survived. It is named after a New York deli, where comedians allegedly came up with the theory to explain how their colleagues stayed successful once they’d ‘made it’.⁶

Over the years, it has been developed further by philosophers and applied to non-perishable things, like businesses. Under Lindy’s Law, companies that have endured for 100 years can be expected to endure for at least another 100.

Those same businesses should beware Seneca’s Cliff,⁷ however. Proposed by Ugo Bardi, a physical chemistry professor, it’s the idea that systems decline at much faster rates than they grow.

Put another way, a business that took decades or even centuries to build, is likely to unravel far more quickly.

This is where a culture of change becomes important. Long-established businesses often fail because they are too slow to adapt, whether that’s to new technologies (Kodak and Polaroid), evolving customer experiences (Woolworths and Sears) or structural industry changes (Pan Am and Studebaker).

It is, of course, a delicate balance to maintain between continuity and change. Aimless adaptation can be just as dangerous as a rigid reverence for routine, and what is right for one company may not be right for another.

Texas Instruments,⁸ for example, is a company that has survived and thrived for nearly a century because of its constant reinvention. Since being founded in 1930 as Geophysical Service Inc, it has specialised in oil exploration, military and consumer electronics, and semi-conductors.

Few tech companies from that era are still successful today. Texas Instruments is one of them precisely because it has never been afraid to change course and double down where it sees lasting value.

On the other hand, British tea company Twinings has a brand identity that is firmly anchored in tradition. Its logo has remained unchanged for over 230 years, making it the oldest in continuous use in the world.

The company’s original tea shop, opened on London’s Strand in 1706, is still trading on the same site today – a living reminder of the brand’s remarkable staying power.

Two successful companies; two very different approaches to adapting over the long-term.

As wealth managers, continuity is especially important to us. This year, our industry has been in a state of flux – mergers, sell-offs, leadership changes – and we know this can feel unsettling for clients.

Our job is to offer calm in the noise and be clear about direction. For you, that means continuity of people and process, and decisions made on a long horizon.

We aim to plan for change carefully, communicating early and ensuring the course we’ve set remains sound even as conditions evolve. The goal is to provide stability where it matters most, with thoughtful adaptation when needed.

4) PUT CUSTOMERS FIRST

In 1983, Horst Schulze, co-founder of The Ritz-Carlton, sat down to write the hotel chain’s first official charter of its values.

The resulting ‘Credo’ continues to guide how the business operates more than 40 years later. Like the US Constitution, it’s undergone a few amendments during that time, but one thing that hasn’t changed is its commitment to customers.

⁶ Lindy’s Law, The New Republic, 13 June 1964

⁷ Named after the Roman philosopher Seneca the Younger, who observed “the way to ruin is rapid”.

⁸ Added to our portfolios in January 2025

The Credo's opening line reads: "The Ritz-Carlton is a place where the genuine care and comfort of our guests is our highest mission."

It is a sentiment best summed up by the brand's motto, "We are Ladies and Gentlemen serving Ladies and Gentlemen".

To put words into action, The Ritz-Carlton introduced the \$2,000 Rule, allowing every employee, without exception, to spend up to that amount on solving problems or creating memorable experiences for guests.

Schulze himself tells the story of a man who left his laptop in a Ritz-Carlton hotel in Atlanta – a laptop that was needed for a crucial business meeting in Hawaii. Rather than rely on couriers, the housekeeper who found it boarded the next plane out to hand it over in person.⁹

Another famous example occurred in Bali, where a family checked in with allergy-safe eggs and milk for their son, only to find them spoiled. When the hotel staff couldn't source replacements locally, the executive chef arranged for his mother-in-law to personally fly them over from Singapore, more than 1,000 miles away.¹⁰

We do not invest in Ritz-Carlton, but many of the companies in our portfolio have also gone to great lengths to support their customers, especially during times of crisis.

During the Great Depression, John Deere famously extended credit to struggling farmers and refused to repossess farm equipment when families fell behind on payments. This was despite the company's sales revenue dropping a staggering 86% between 1930 and 1932.¹¹

The logic was simple: if farmers failed, Deere failed too.

Nearly 90 years later, Admiral showed the same spirit of solidarity at the height of the COVID-19 pandemic. With fewer people on the road, the insurer predicted it would see a drop in accident claims, and wanted to give some of this money back to customers.

Given the depth of our relationship with Admiral, they invited us to share our thoughts on the idea of offering refunds. We reassured the company that the long-term benefits of such a move would outweigh any impact on short-term profits, and Admiral went ahead, refunding customers £110 million.

As for Rothschild & Co, putting clients first is embedded into our two core objectives: preserving and growing your wealth in real terms, and providing exceptional client service.

While markets rise and fall beyond anyone's control, the level of service we provide is something we can always keep consistent. That belief runs through the whole business; everyone is accountable for the experience a client receives. Our only measure is what is right for you.

Crucially, we also invest alongside the families we serve, so that we're always sharing the ups and downs with you.

PRESERVING OUR CULTURE

We would like to end this Quarterly Letter by briefly talking about growing pains.

Many businesses struggle with staying true to their culture once they reach a certain size. Shared values are easier to uphold when a company can still fit under one roof. It is much harder when a business crosses borders, languages and time zones.

Our company has long since moved beyond its origins at New Court in London, and we at Rothschild & Co Wealth Management UK continue to grow as well.

Nonetheless, we work hard to preserve the essence of our culture, while recognising that it may sometimes take on different forms across the business.

On this issue, we'd like to borrow the words of Lawrence A. Cunningham. He is vice president of the board of directors at Constellation Software, one of our investee companies, and when asked what their culture is like, he said:

"There is both one culture and a thousand cultures. Each business unit has a culture, each portfolio has a culture, each group has a culture and yes, there is one enveloping... culture."¹²

We believe this also holds true for Rothschild & Co. As our business continues to grow and evolve to meet the needs of our clients, there is both one culture and a thousand cultures.

Yet the experience should feel the same – recognisably us – in every encounter.

⁹ An Empowerment Lesson From the Ritz-Carlton, Shep Hyken, Accessed 22 September 2025

¹⁰ How Ritz-Carlton Maintains its Mystique, Bloomberg UK, 14 February 2007

¹¹ Deere and Company in the Great Depression, Farm Collector, 7 February 2013

¹² Tegus Transcript, Constellation Software, 10 May 2023

Important information

Notes

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

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

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

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