



QUARTERLY LETTER | ISSUE 33 | JANUARY 2022

Speaking plainly



Foreword

This month marks the 25th anniversary of the first Quarterly Letter.

When the inaugural issue was released in January 1997, John Major was prime minister, the Spice Girls were at the top of the charts and AOL was the world's most popular website.

Obviously, a lot has changed since then. And during that time, the Quarterly Letter has changed too, reflecting how Rothschild & Co has evolved as a company.

Those early Quarterly Letters took the form of traditional market updates, highlighting the performance of individual funds and holdings.

As our investment philosophy matured, so too did our communication of it. Instead of focusing on short-term market performance, we now see our Quarterly Letter as a key means of articulating our investment approach; discussing and examining how we protect and grow your wealth for generations, not quarters.

We strive to be candid and forthcoming, minimising jargon and using interesting metaphors and anecdotes to illustrate the thought processes that underpin how we preserve and grow your wealth.

Speaking in clear, simple terms about how we invest is important to us, not just in the Quarterly Letter but across all our client communications. We sincerely hope that we meet (and exceed) your expectations in that regard.

As always, thank you for reading and I wish you and your families a happy and healthy 2022.

Cover: Envelope from a Presidential 'Thank you' sent to Nathaniel 1st Lord Rothschild (1840–1915), Senior Partner N M Rothschild & Sons, from President Theodore Roosevelt (1858–1919) in 1904. Courtesy of The Rothschild Archive.

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Speaking plainly

In 1942, the US had just entered the Second World War. With Pearl Harbour fresh in American minds, the government began introducing blackouts to prevent enemy pilots from targeting important landmarks.

A draft of one blackout memo read: “Such preparations shall be made as will completely obscure all Federal buildings and non-Federal buildings occupied by the Federal government during an air raid for any period of time from visibility by reason of internal or external illumination.”

If you struggled to get through that hulking sentence, you’re not alone. President Franklin D Roosevelt found it so preposterous that he personally intervened. His alternative phrasing was characteristically terse: “Tell them that in buildings where they have to keep the work going to put something across the windows.”¹

FDR was no stranger to speaking plainly. He was the first president to deliver regular radio addresses directly to the US public, seeing these ‘fireside chats’, as they became known, as an informal conversation between him and his fellow Americans.

Roosevelt used everyday language and punctuated his speeches with familiar examples and allegories. His authentic approach struck a chord with Americans, and FDR went on to secure four consecutive terms in office – the longest tenure of any president.

Like Roosevelt, we believe in speaking plainly at Rothschild & Co.

In our role as wealth managers, we work diligently to see the world from our clients’ perspective and to understand the specific challenges they face. This isn’t possible without clear, transparent and empathetic conversations.

But we also strive to be open and approachable in how we communicate because it’s a hallmark of one of our core values: doing business with humanity.

What does speaking plainly mean to us? Let’s start with the basics: the words we use and why we use them.

CLEAR COMMUNICATION

A message can be either clear and simple or utterly incomprehensible depending on the way the information is delivered. Presentation is important.

Let us show you what we mean.

Give yourself five seconds to look at the letters below and try to remember them in order:

P R C F H D S E O V P S T E

Now cover them with your hand. How many can you remember? If you struggled, don’t worry. The human brain isn’t designed to recall lots of individual, unrelated pieces of data.

Unfortunately, in an age of information abundance,² we are constantly bombarded from all sides by exactly this: individual,

COMBINING BUSINESS WITH HUMANITY

In 1926, European banker Siegmund Warburg spent the summer working at New Court. The Rothschilds and the Warburgs maintained a close relationship throughout the 20th century, illustrated by hundreds of letters exchanged between the two families.

Talking about his experience that summer, Siegmund later wrote: “You provided me with many opportunities to learn. I learnt quite a lot of details of business machinery. But I learnt something also which will be far more important to me in my future life. This is the fine tradition of New Court, which combines business with humanity, without neglecting either.”

¹ William Zinsser. On Writing Well, p7

² www.rothschildandco.com/en/newsroom/insights/2019/06/age-of-information/



unrelated pieces of data. How can we cut through the noise?

Let's rearrange the letters above and bunch some of them together:

CEO PHD RSVP FTSE

Now try again. Look at the letters for five seconds, then cover them up and try to recall them. Chances are, it was much easier this time around.

That's because of a cognitive process called 'chunking'; we can digest information better when it is grouped into more meaningful units. The chunks – well-known acronyms in this case – are much easier to process.

Why does this matter? Because we strive for noise-reducing wealth management,³ so our aim is to ensure that what we're saying is always easily understood. Which brings us to jargon.

JARGON BUSTING

Every industry has jargon – an often-confounding mix of acronyms, initialisms, buzzwords and technical slang which form a secret language that only practitioners of that particular discipline can decipher.

SPEAKING CLASSICALLY?

There is a method of writing prose known as 'classic style' that captures what we hope to achieve when communicating with clients.

Classic style traces its roots back to 17th Century French writers, and its principles are outlined in *Clear and Simple as the Truth* by Francis-Noël Thomas and Mark Turner. Many writers describe classic style as something to aspire to.

"In classic style, the motive is truth, the purpose is presentation, the reader and writer are intellectual equals, and the occasion is informal."⁴

Put another way, the best form of communication is a friendly, honest conversation between two like-minded people.

The financial services industry is no exception. J-Curves, P-Values, Tobin's Q and R-squared are just a handful of the ingredients in an alphabet soup that goes from alpha (returns) to zeta (scores).

Not all jargon is bad, of course. Among industry peers, it's an efficient way of communicating sophisticated ideas without getting bogged down in verbiage. For a layperson, however, jargon makes complex topics even more impenetrable.

So why do many businesses, policymakers, academics and scientists fail to speak plainly when communicating with people outside their specialism?

An uncharitable interpretation is that jargon is used intentionally to dress up otherwise trivial commentary with lofty terminology. Under these circumstances, it's easy to see how a simple word like 'lights' can mutate into 'internal and external illumination' in the blackout memo we referenced earlier.

Research also shows that people use jargon when they feel insecure about their group status. In one experiment, MBA students were asked to present a start-up idea for a pitch competition.

Their use of jargon rose significantly when they were told they would be pitching against established entrepreneurs rather than fellow MBA students or undergraduates.

In other words, they tried to come across as more technical when they were competing with professionals – they wanted to sound the part.

It seems a touch ironic that the study's authors refer to jargon as 'compensatory conspicuous communication' that serves 'a status compensation function'.⁵ One may wonder how confident they feel about their own group status if they're using such convoluted terminology!

A MATTER OF PERSPECTIVE

Cognitive psychologist Steven Pinker has a less cynical explanation for a lack of plain-speaking communication: the curse of knowledge. People struggle to understand that someone else might not know what they themselves know.⁶

³ www.rothschildandco.com/siteassets/publications/rothschildandco/private_wealth/2018/en_rpw_2018_quarterly_letter_march.pdf

⁴ Francis-Noël Thomas and Mark Turner. 2011. *Clear and Simple as the Truth*.

⁵ www.sciencedirect.com/science/article/abs/pii/S0749597820303666

⁶ Steven Pinker. 2014. *The Sense of Style: The Thinking Person's Guide to Writing in the 21st Century*



Put another way, it's easy to become so familiar with the jargon of your profession that you forget it's jargon to everyone else.

The curse of knowledge explains why doctors use baffling medical terms when talking to patients, and why lawyers write letters to their clients in obscure legalese.

Even furniture manufacturers are susceptible; anyone who has been flummoxed by unfathomable flat-pack assembly instructions will know what it's like to be on the receiving end.

Failing to see other people's perspective is a cognitive bias that is most obvious when we're young. It's well illustrated by the Sally-Anne test, in which children are shown a short skit between two puppets.

The first puppet, Sally, places a marble in a basket and leaves the room. Puppet Anne then steals the marble from the basket and hides it inside a box while Sally is away.

Where will Sally look for the marble when she returns? Kids under the age of four tend to say she will check the box, even though Sally was out of the room when Anne moved the marble. The children assume that Sally knows what they know.

This phenomenon is known as mind-blindness, and we never entirely grow out of it.

For example, one study showed experienced mobile phone users drastically underestimate how long it will take a novice to get to grips with a new device.

They guessed 13 minutes; the actual time was 32 minutes. However, people who were less familiar with mobile phones were better (albeit still way off) at gauging a beginner's performance, predicting 20 minutes.⁷

"The better you know something, the less you remember about how hard it was to learn," Pinker says.⁸

According to him, the first step to avoiding cognitive biases is to put yourself in other people's shoes.

As wealth managers, we try to understand people's priorities and motivations as they look to secure the long-term future of not just them and their children, but also their children's children and beyond.

Many clients seek stability and continuity, and we share those values. We take great pride in our extremely low staff turnover in an industry where this is vanishingly rare, and our client advisers have an average of 19 years' experience.

Continuity should not be mistaken for constancy, however.

There is an important distinction; they both mean 'enduring', but constancy is enduring without change, without improvement. And our business – as well as the way we communicate – continues to evolve to meet clients' needs.

The Quarterly Letter is a prime example of this.

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⁷ Pamela J Hinds. 1999. The Curse of Expertise.

⁸ Steven Pinker. The Sense of Style, p61



WHY THE QUARTERLY LETTER?

In the 1990s, client portfolios varied far more in their underlying holdings. This meant that a team of analysts and assistants spent the last few weeks of every quarter manually compiling letters to each client to keep them regularly updated on the performance of their specific investments.

Every Quarterly Letter was personalised, printed as a hard copy and posted out – it was a painstaking process and doubtless prone to error.

So much so that Dean Lush, our Executive Vice Chair, even arranged his wedding day to specifically avoid it falling on a date near the end-of-quarter crunch time!

It almost goes without saying that advances in technology have simplified our communications process, allowing our analysts, portfolio managers and client advisers to spend more time focusing on what matters – preserving and growing your wealth.

Through our conversations with you over the years, we recognise that our communications hold the greatest value when they contain not just raw performance numbers, but an insight into our investment approach. This helps us to contextualise performance from quarter to quarter, and also highlights how this long-term approach, and the underlying principles behind it, have allowed us to preserve and grow our clients' wealth over generations.

FROM TOP DOWN TO BOTTOM UP

Today, clients no longer have portfolios designed with a top-down view. Instead, each portfolio is built from the bottom up; we aim to stay ahead of inflation by investing only in high-quality businesses and funds based on our own deep research, while our diversifying assets seek to protect portfolios and avoid large losses.

This approach gives us even more conviction in our holdings, while ensuring clients' portfolios suit their goals over the long term.

The Quarterly Letter is one way in which we aim we do this. Not with numbers, charts and graphs, but by breaking down complex topics in imaginative ways, using interesting anecdotes, metaphors and historical references.

We hope this makes for a more thought-provoking, insightful read, while also clearly illustrating what differentiates us and our approach from that of other wealth managers.⁹

THE VALUE OF FACE TO FACE

Speaking plainly isn't just about what we say, but how we say it.

FDR's fireside chats were broadcast between 1933 and 1944, during the Golden Age of Radio. Roosevelt recognised the value of talking to people directly, and he quickly adapted to contemporary cutting-edge technology to get his message across.

It's an approach that many presidents have since imitated.

John F Kennedy was the first 'made for TV' president, honing his appearance, speech and mannerisms by forensically studying tapes of his press interactions with help from TV production experts.

Similarly, Barack Obama used over 15 social networking sites to reach out to supporters directly during his 2008 presidential campaign. Today, Obama has the most Twitter followers in the world at 130.4 million.

The evolution of technology has made getting in touch with people simpler than ever before. But easier communication isn't necessarily better communication. We believe it's about striking the right balance.

First and foremost, our view is that nothing compares to meeting with people in person. This holds true for all our interactions, whether it's with clients, third-party fund managers or the management teams of the companies that we invest in.

After all, despite the benefits of modern technology, presidential candidates still hit the campaign trail, going from state to state to shake voters' hands, hold babies and convince the public directly that they're the right person for the job.

⁹ www.rothschildandco.com/siteassets/publications/rothschildandco/private_wealth/2021/quarterly_letter/en_wm_quarterly_letter_january_2021_straying_from_the_herd.pdf



For us, the bonds of a strong relationship – such as trust, honesty and mutual respect – are best forged face to face, over time.

We use technology to facilitate, not replace, that process. For example, it is crucial for helping us stay in touch with clients more frequently when stormy market weather is stirring up frothy conditions.

Covid-19 saw the global economy plunge into the deepest recession since the Second World War. It was a deeply worrying and stressful time, both for markets and for many clients and their families personally.

Our comprehensive continuity plans and investment in technology meant our teams were able to pivot quickly throughout the crisis, while still keeping clients informed and reassured at a time of great volatility.

And it is during troubling times when sincere, plain-speaking communication is needed most.

It's no coincidence that 54% of households on average tuned into Roosevelt's fireside chats throughout the early years of the war, compared with 18% during peacetime.

FDR's confidence and composure helped steady the nation's resolve. He acknowledged that challenges lay ahead, but assured Americans that they'd emerge stronger as a result: "A smooth sea never made a skilled sailor."

We hope to provide a similarly calming influence when navigating choppy waters.¹⁰

FINAL THOUGHTS

Speaking plainly, both in what we say and how we say it, is at the heart of our approach. Open and honest two-way communication is essential to building and sustaining a long-term partnership.

On occasion, this will involve us disagreeing – diplomatically, of course – with clients. But we feel robust back and forth of this nature is a healthy and necessary part of any relationship.

We also acknowledge that we're not perfect. Despite our best efforts to be clear, concise and avoid jargon, our communications may not always hit the mark. There is always room for improvement.

Earlier, we quoted Steven Pinker, who said the first step to better plain-speaking communication is putting yourself in other people's shoes. He believes the second step is seeking feedback.

We're privileged to have some of the world's most successful and respected industry leaders, entrepreneurs and experts as clients, and we greatly value your thoughts and opinions on our plain-speaking approach.

That is why we always welcome feedback on how we can improve our client communications, whether this be through formal channels or day-to-day chats with advisers.

Ultimately, we measure our success by the depth and longevity of our relationships with clients. Thank you for your ongoing confidence in us.

21ST CENTURY FIRESIDE CHATS

Face-to-face communication is typically our preferred approach, but we appreciate that many of our clients are busy people and thus time poor. As such, we also release performance and market updates via other channels to enable you to engage with the material at a time that best suits you.

This includes the New Court podcast, which is our modern take on FDR's fireside chats. Every quarter, we sit down with members of the investment team to discuss in plain, straightforward terms what is happening across markets and portfolios.

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¹⁰ www.rothschildandco.com/en/newsroom/insights/2019/04/navigating-challenging-investment-seas/



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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