Issue 07 | Winter 2021/22

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Rothschild & Co
Wealth Management

FOREWORD

"Life starts all over again when it gets crisp in the fall."

— F. Scott Fitzgerald, *The Great Gatsby*

This autumn many of us have seen a return from leisure to work. With the acquisition of Banque Pâris Bertrand in Geneva and the opening of a Wealth Management office in Madrid, it's been all systems go. As we move into the year-end, we reflect on a year that, despite its obvious adversities from the Covid-19 Pandemic, has seen life start afresh.

With winter upon us and longer evenings ahead, we bring you our latest collection of insights and views on topics and strategies we think are important to you. We also include an interview with the head of the newly opened Madrid office, topical insights into the world of sports and sponsorship and a post-COP26 deep dive into the future of hydrogen in a world looking to move away from carbon.

As always, you can follow our latest series on our Wealth Insights page and should you wish to subscribe to any of our series, please do not hesitate to contact your client adviser.

We wish you a peaceful end to 2021 and a prosperous start to the new year.

Joyeuses fêtes, Frohe Festtage

Laurent Gagnebin
CEO, Rothschild & Co Bank AG

Dr. Carlos Mejia
CIO, Rothschild & Co Bank AG

Cover image: an aerial view and skyline of Madrid at dusk, where Rothschild & Co recently opened a wealth management office, building on our long history of working in Spain.

Publication date: Winter 2021/22.
Values: all data as of November 2021.

Seasonal changes

Weathering fluctuations in the economy and markets

Rothschild & Co
Wealth Management

Inflation and the recovery

Is the world economy just running hot or could it be starting to overheat?

Kevin Gardiner
Global Investment Strategist

Just 18 months or so ago the economic headlines proclaimed mass unemployment. Today the talk is of labour shortages and inflation.

It is not a big surprise. The dramatic slump in activity in 2020 did not reflect underlying economic weakness, but was a collective and considered response to the public health emergency.

We thought economies would be able to reopen quickly when it was deemed safe. When they did so, there would be pent-up demand, and policy would likely be overly generous. Inflation, not deflation, was always a likely eventual outcome. Virus permitting, this remains our view.

The spike in inflation to date has been bigger than we thought. In the US and Germany, headline rates have breached 6% and 4% respectively, remarkable levels (three-decade highs) by local standards.

The inflation has so far been accompanied by ongoing growth: talk of "stagflation" is premature. The global economy is bigger than it was pre-pandemic, and business surveys remain upbeat. The main exceptions are where output is being held back not by weak demand, but by shortages of key inputs – including labour: wages are picking up alongside prices.

Some of these shortages may be with us for some time. The lead times on new semiconductor capacity, for example, are long, and semis are ubiquitous – the big carmakers are the most visible casualty.

But many shortages reflect pandemic disruption, and may prove short-lived. And all the time, economic potential is expanding as productivity grows. New technology, and the learning curve, will together continue to give us more from less.

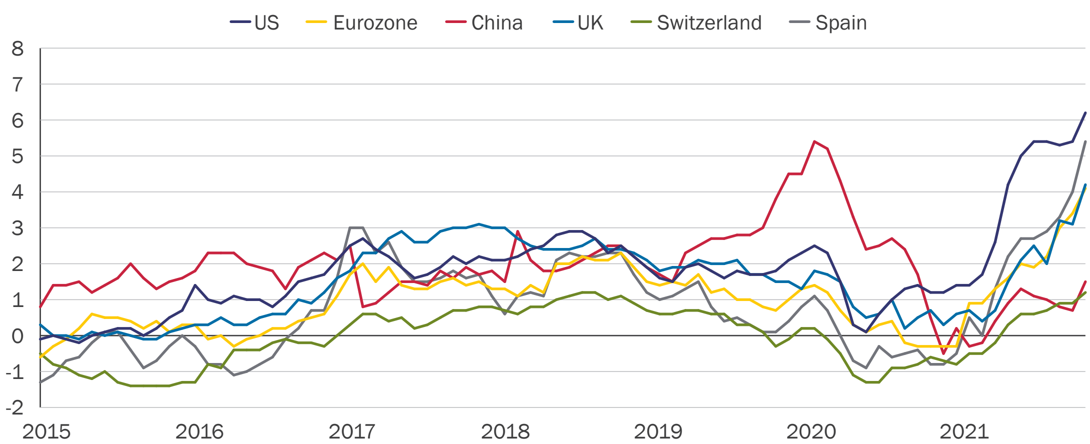
As bottlenecks fade, and some commodity prices stabilise or go into reverse, the immediate inflation surge will subside. We doubt that this will be the end of the matter, however. Some underlying inflation risk will persist, even as overall capacity grows, as long as demand remains robust.

Consumer balance sheets are strong and liquid, and politicians will be slow to push taxes up or cut public spending. Environmental mitigation and adaptation – signalled again in the Glasgow Climate pact – may also add (understandably, and unavoidably) to the inflationary mix.

The big central banks have clearly signalled their willingness to let economies "run hot" for a while. We get it: as noted, some of today's inflation is indeed likely to be temporary, and is perhaps being overstated by the news industry (as was the deflation of spring 2020). We also recognise that economies may be less inflation prone than they used to be. Labour markets are more flexible, economies are more digital, and monetary policy is more credible. Who would have guessed, for example, that Spain's inflation could dip below Germany's for a decade?

Figure 1: Consumer prices indices

Headline inflation (year-on-year, %)



Source: Rothschild & Co, Bloomberg

The risks are not symmetrical, however, and inflation may not be susceptible to fine tuning. It can get out of control and do serious societal damage: there are countless historical examples. There have been no hyperdeflations. And a careful analysis of the seemingly more benign inflation process requires taking many variables into account – such as, in the example above, Spain's higher unemployment.

We think, then, that there is a significant risk that today's "running hot" becomes tomorrow's "overheating".

We think, then, that there is a significant risk that today's "running hot" becomes tomorrow's "overheating". In which case, monetary policy may yet end up tightening faster, and further, than central bankers and money markets expect.

Central banks in several smaller economies (and not just the usual suspects) have already begun to raise interest rates – getting their retaliation in first, perhaps.

We continue to think inflation will settle at a trend rate of perhaps 2% to 4% across the big developed economies. This is above the 1% to 2% pre-pandemic norm, but moderate rather than alarming. Higher inflation on this scale, and some interest rate risk, poses an obvious headwind for bonds. Prices have fallen modestly in 2021, but most high-quality yields remain below central bank inflation targets, never mind today's above-target CPI rates.

It would be nice to think that such low real yields reflect our collective wish to value the welfare of future generations more highly. In reality, they likely reflect market technicalities, including liability-driven investing and central bank purchases. We doubt they will stay this low.

If this makes us sound like rather stale bond bears, that's because we are. The future remains profoundly uncertain; diminishing marginal utility still applies to wealth as to most things; and corporate assets remain firmly profitable. Each of these argues for a positive long-term real discount rate.

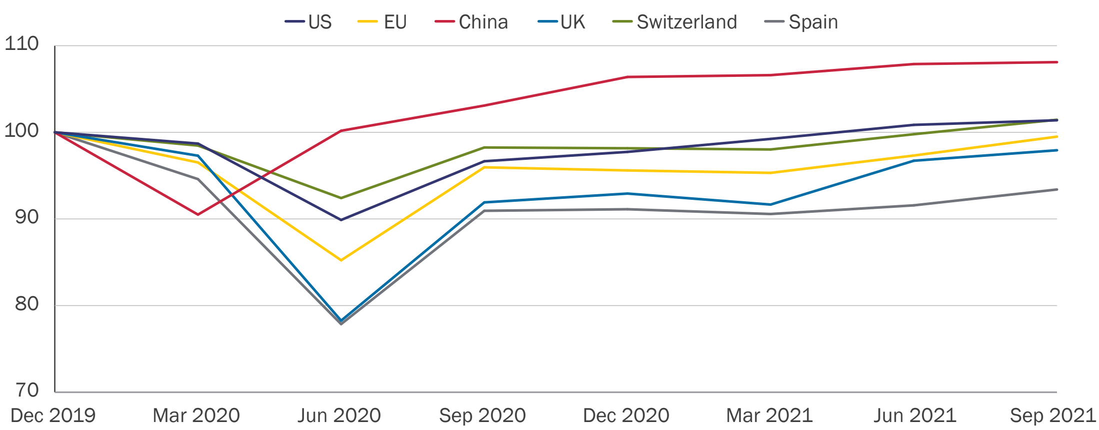
Moderately higher inflation need not be a bad environment for equities. To date, corporate profits have been ahead in their tactical race with interest rates, and stocks have done well, even as inflation has revived. But if monetary credibility were at risk, and interest rate expectations were to change more dramatically, equities would be vulnerable too.

Stocks are the more volatile asset, even in normal times, and are currently expensive (albeit less so than bonds). And when investors need to liquidate assets in a hurry, they sell what they can, not what they should: blue chip equities can act as the cash-dispenser of choice in a crisis.

Our tactically overweight stance in global equities has served client portfolios well again in 2021, and can do so into 2022. When inflation is active, however, there is no iron law of wealth conservation, and we take nothing for granted.

Figure 2: Recovery profile of major economies

GDP, indexed to Q4 2019 = 100



Source: Rothschild & Co, Bloomberg

Notes from the manager

Our Mosaique portfolios have weathered the market's rotations to end the year in a strong position

Emmanuel Casalis
Portfolio Manager

The past year has been a period of contrast driven by a post-pandemic economic rebound. Within this environment our balanced Mosaique portfolios have weathered several market rotations and are finishing 2021 in a strong position across CHF, EUR and USD strategies (figure 1). For clients of Mosaique, you can now subscribe to our quarterly updates on management and performance. For more information, please contact your client adviser.

The year began with markets factoring in a strong economic recovery, with a rally in companies exposed to the economic cycle (cyclical stocks) and whose market price appeared lower than their fundamental value (value stocks). Against this cyclical rally, we resisted the temptation to chase the market and were rewarded for our patience. In the third quarter, companies with outstanding fundamental qualities (quality stocks) and those expected to grow sales and earnings faster than the market average (growth stocks), began to outperform the market once again.

Throughout the year, the oscillation between growth and cyclical stocks has captured headlines. While we think such news is overdone, we took the tactical decision to expose our Mosaique portfolios to cyclical sectors such as materials and industrials. We also managed risk by trimming some strong-performing stocks and investing opportunistically in quality companies such as Nike, LVMH, ASML and Epiroc as soon as we could identify suitable entry points.

Managing inflation risks

When inflation is relatively high, it is important to hold real assets and limit fixed income given that the coupon is fixed and does not adapt to new price levels. Equities provide ownership of a business, and are thus real assets. By being overweight in equities and underweight in fixed income, we already tackle part of the current inflation risk.

We believe our philosophy is the best protection against inflation: we focus on high-quality companies that have strong revenue visibility and pricing power, a reliable and stable client base and high switching costs. When interest rates are rising, it's a good idea to invest in companies with these qualities, which can pass on increased costs to their customers with ease.

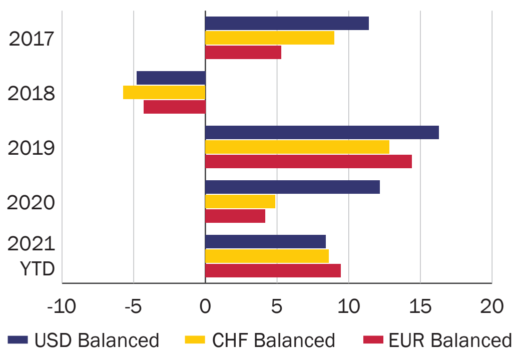
Overall, our asset allocation remained unchanged, and we stayed overweight in equities and underweight in bonds. Within fixed income, we continued to be underweight in duration and overweight in credit. This proved to be rewarding, as interest rates started to rise, and credit continued to deliver its superior returns for our portfolios.

Patience and commitment

In this changing environment, our patient and rational approach paid off. By sticking to our asset allocation views and to our broader investment philosophy, Mosaique portfolios were able to outperform. As at the end of October 2021, balanced Mosaique portfolios are up 9.4% in EUR, 8.4% in USD and 8.6% in CHF. On a relative basis, in line with what we delivered over the past few years, we have outperformed our competitors, as measured by ARC Private Client Indices.

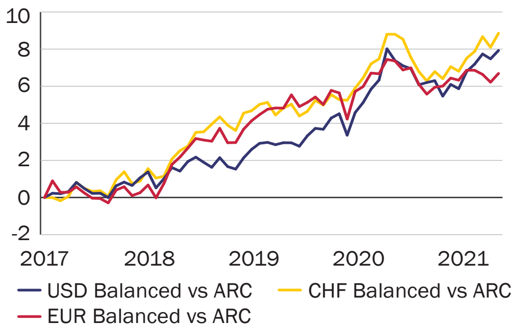
Looking ahead, we remain extremely vigilant, as market conditions remain volatile. As usual, we will monitor closely our positioning and continue to manage our risks to ensure our Mosaique strategy can continue to deliver in the months ahead. We look forward to updating you in the new year.

Figure 1: Absolute performance of Mosaique portfolios to 31 October 2021 (%)



Source: Rothschild & Co

Figure 2: Relative performance of Mosaique portfolios to 31 October 2021 (%)



Source: ARC (Wealth Management Private Client Indices), Rothschild & Co. Note: Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise.

Sports and sponsorship

Today's sports stars have the power to supercharge brands through their relationships

William Haggard
Head of Investment Insights

Guido Urban
Investment Insights

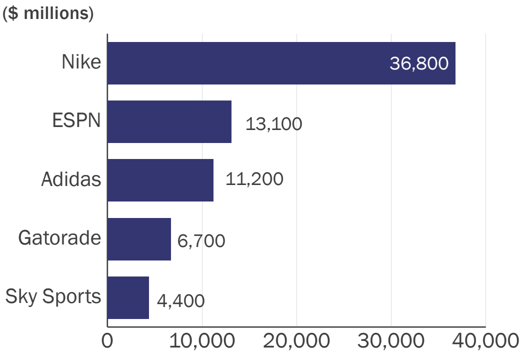
We spoke to former professional football player turned fashion designer Danny Williams (see box 'The beautiful game) about sports and sponsorship. From apparel companies such as Nike and Adidas, drinks companies such as Coca-Cola and Pepsi and viewing channels such as Disney+ or Amazon Prime, we explore the specific dynamics in a market driven by sports stars and brands.

Sport and sponsorship have their origins in the gladiatorial arenas and the Circus Maximus of Ancient Greece and Rome. Since the early 20th century, sports and sponsorship have undergone rapid transformations via a revival in mass-spectator events, the rise of professional sports players and the advent of television and social media channels. Between 2007 and 2018 spending on sports sponsorship increased by some 42%.

What's in a brand?

At the heart of sport sponsorship are sport apparel brands, such as Nike and Adidas, recreational sponsors such as Coca-Cola and Pepsi and distribution channels such as Comcast and Disney+, (ESPN). These businesses have built up their relationship with players and the industry over decades. Figure 1 shows the five most valuable sports brands taken just before the pandemic.

Figure 1: Most valuable sports business brands worldwide in 2019

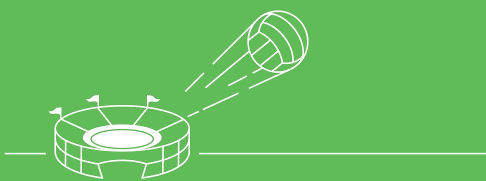


Source: Statista. A business brand value is the estimated enterprise value the business would sell for in an arms-length transaction, less the enterprise value of a typical industry peer of equal size would sell for.

The beautiful game[1]

In our **interview** with Danny Williams, we explore the relationship between sports stars and sponsorship as well as his personal story of leaving the world of football and setting up his own fashion label Beautiful Struggles.

During his football career, Danny played in the UK Premier League, the German Bundesliga and US national soccer team. He provides insights into the strong relationships between players and sport brands, drawing on his own experience of working with Nike and Puma. After being forced off the pitch by injury in his late 20s, Danny recounts his journey from football to fashion, what it takes to build a brand as an entrepreneur and where he gets his inspiration from as a designer. After his debut at the Paris fashion show in autumn 2021, Danny's career is in full swing.



Growth in sports and sponsorship

Early 20th century	• Product placement • Provision of free equipment to athletes
Mid and late 20th century	• Brand visibility • Logo placement in stadiums and on athletes' equipment
21st century	• Fan engagement and relationship • Storytelling via digital media

Source: Rothschild & Co, Statista.

Social media has encouraged spending on sports sponsorship

Growth in sports sponsorship spend since the decade that brought us social media

2007	**$37.9bn**
2018	**$65.8bn**
2027	**$89.6bn***

**Estimated*
Source: Rothschild & Co, Statista.

[1] *Thanks goes to Marija Rubezik for arranging the interview*

Beyond sports brands and media outlets, the sports sponsorship market has attracted an increasing number of sponsors from financial services, automobile, airline, alcohol and luxury goods brands. The impact of sports sponsorship on the earnings of top athletes has in turn monetised the industry. For certain athletes, sponsorship now far exceeds earnings from prize money and salaries (figure 2).

The power of individual sports stars to market brands via sponsorship explains why it has become such a lucrative revenue stream for players – often far outstripping more conventional prize money or sports salaries.

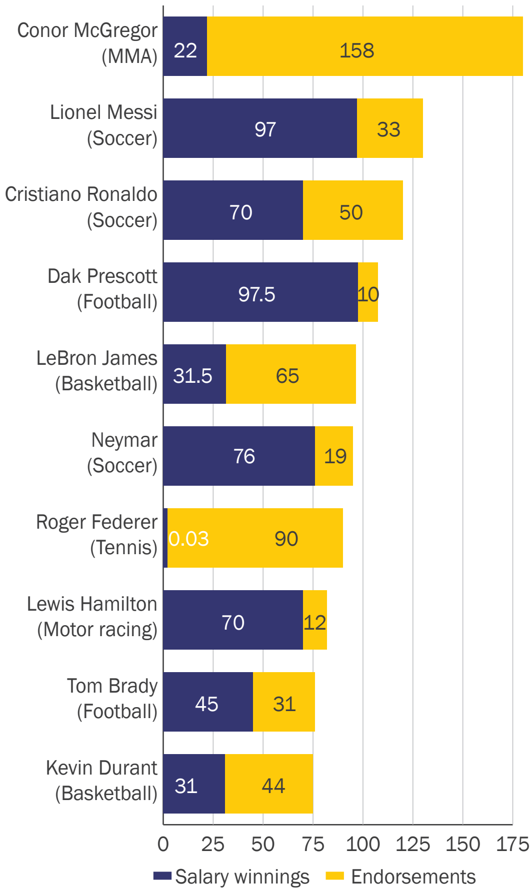
Social media and streaming

As a result of the advent of streaming sporting content via on-demand platforms such as ESPN or Amazon Prime (see our Thematic Insights on Streaming Wars) and the rise of social media and smartphones, brands increasingly generate visibility outside stadiums and official match times. This trend has increased revenue for sports stars. The power of individual sports stars to market brands via sponsorship explains why it has become such a lucrative revenue stream for players – often far outstripping more conventional prize money or sports salaries. This influence of sports stars compared with brands is highlighted by comparing the top 10 Instagram accounts for both categories. The power clearly lies with the athletes (figure 3).

For more information on the sports and sponsorship market, our client advisers are ready to discuss with you our investment views and how you can benefit from this growing industry.

Figure 2: Highest-paid athletes by earnings from salary and endorsements worldwide in 2020–21

($ millions)



Source: Statista.

Figure 3: Sports stars vs brands

Top 10 brands	Instagram followers
Nike	85.9m
Adidas	32.7m
Puma	9.3m
Under Armour	7.0m
Patagonia	3.9m
The North Face	3.8m
New Balance	3.1m
Gymshark	3.1m
Reebok	2.3m
FILA	2.0m

Top 10 athletes	Instagram followers
Cristiano Ronaldo	300m
Dwayne Johnson	214m
Lionel Messi	180m
Neymar Jr.	152m
Virat Kohli	93m
LeBron James	80m
David Beckham	65m
Ronaldinho	53.8m
Kylian Mbappe	47.7m
Zlatan Ibrahimovic	47.7m

Source: Statista.

In the LongRun

New opportunities

Rothschild & Co
Wealth Management

A patient approach

Our LongRun strategy is designed to invest in high-quality businesses for the long term

Beat Keiser
Head of Equity Research

On 1 October 2021, Rothschild & Co officially acquired Banque Pâris Bertrand. For more on the acquisition, please read our Summer 2021 edition of *Mosaique Insights: A return to leisure*. As discussed in that edition, the acquisition brings new opportunities for investing in a wider range of strategies focused on long-term wealth preservation. In the following article with our Head of Research and Portfolio Manager Beat Keiser, we look into one of these strategies, LongRun, and find out how it deploys a high-conviction equity portfolio to preserve wealth for the next generation. For clients of LongRun, you can now subscribe to our quarterly update on management and performance. Please contact your client adviser for more information.

The foundation of the LongRun strategy is to act as long-term business owners investing our clients' capital in a concentrated portfolio of high-quality companies. We want to own high-quality businesses for the long term. What's crucial for us is a company's competitive position, a superior and sustainable business model and the ability to compound earnings. Therefore, we would like to have 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 while not being shy of high valuations where these are justified by underlying fundamentals. 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.

The avoidance of permanent capital loss has been in Rothschild's DNA for over two centuries. For the LongRun strategy we avoid businesses exposed to external factors outside their control, which can harm attractive returns. We think long and hard about whether a business will still have a license to operate in the long term, conscious of potential environmental or social risks. Only robust companies with a clear and sustainable path 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.

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.

The team

The team in charge of the LongRun strategy is made up of three portfolio managers who are supported by equity analysts. We manage the strategy with an investment style that is close to the one we have developed at Rothschild & Co over the last couple of years. As a team, we have worked together for an average of five years, know each other's working habits and are highly complementary. This is important because we operate as a team and are convinced that a collaborative approach is best suited to run such a high conviction portfolio.

The hurdle for companies to make it into the portfolio is high, which leads to focused debates before making changes to the portfolio composition. Should our team grow, we are confident this would neither dilute decision making nor the quality or concentration of the portfolio. The latter should be easy to achieve since we stick to 20 to 30 holdings with weights between 3% and 6%.

The work

Since adopting the strategy as part of the Banque Pâris Bertrand acquisition, our work has focused on bringing our understanding of all the companies in the portfolio to a level that gives us confidence as long-term owners. Considerable time was spent on reading annual reports and expert call transcripts as well as speaking to management teams and industry insiders. We've also built financial models for the companies we did not know in detail to better understand their potential for value creation and continued compounding of their share prices.

In November, we even embarked on our first fact finding trip to meet companies and experts in person after an 18-month hiatus due to Covid-19. Our field work has reinforced our appreciation for the high quality of the companies in the LongRun portfolio and we will continue to be very selective in the way we make changes.

ADVISORY

Highway to hydrogen

The universe's most abundant element could help accelerate the world's drive to carbon neutrality

Amaya Gutiérrez
Investment and Portfolio Adviser

Laura Kuenlen
Product Specialist

In the aftermath of COP26, an extensive range of measures will be required to address the various pledges made by the heads of state. One of these measures could be the increased use of hydrogen, a multi-faceted energy transmitter and potential fuel of the future that could help end the world's dependence on fossil fuels. But why is hydrogen so special? How is it structured and used? And what are its future market opportunities?

Discovered in 1766 by the English chemist Henry Cavendish, hydrogen is the smallest, oldest and most abundant element in the universe. It constitutes up to 75% of normal matter and is essential for life: the sun is mostly made of hydrogen and it is present in almost all living things. On Earth, however, pure hydrogen is very scarce.

Despite being everywhere, hydrogen, consisting of one proton and one electron, is found as a compound in combination with other elements, such as water, coal and methane. Energy is therefore required to separate out and produce pure hydrogen. (For more information on the various processes and 'colours of hydrogen', please read our interview with the world's largest industrial gas company, Linde.)

At the end of its production process, hydrogen becomes a clean-burning fuel, which produces only water (H2O) instead of carbon dioxide (CO2). The creation of water as a byproduct of the combustion process is the main pillar around which the hydrogen economy is currently being built.

Other benefits of hydrogen include:

- abundant supply on Earth (compared with a limited supply of natural gas and oil);
- ability to be produced independent of weather conditions (in contrast to wind, solar and hydro); and
- its versatile use across multiple industries.

Currently, around 120 million tons of hydrogen are produced annually, most of which is used as a chemical product in the oil refining or fertilizer industries.[1] That figure should increase five-fold (to 614 million tons by 2050) as hydrogen is used in energy-intensive, hard-to-decarbonise sectors such as shipping and steel. To create a carbon-neutral economy, most of that hydrogen will need to come from renewable sources. The technology already exists in the use of electrolysis (to separate water into hydrogen and oxygen), powered by renewable energy (which produces no carbon emissions).

Figure 1: Drivers and indicators of momentum in the hydrogen economy

DRIVERS

Stronger push to limit carbon emissions

- **10** years remaining in the global carbon budget to achieve the **1.5°C** goal
- **66** countries have announced net-zero emissions targets by **2050**

Falling costs of renewables and hydrogen technologies

- **80%** decrease in global average renewable energy prices since 2010
- **55x** growth in electrolysis capacity by 2025 in comparison to 2015

INDICATORS

Strategic importance in national roadmaps

- **30+** countries representing 70% of global emissions include H_2 in national roadmaps
- **10m** fuel cell electric vehicles to be deployed globally by 2030 (fourfold increase vs 2018 target)

Growing momentum and industry alliances

- **60** members of the Hydrogen Council today, up from 13 members in 2017
- **30+** major investments announced globally since 2017 in new segments (e.g. heavy duty and rail)

Source: Hydrogen Council

[1] *IRENA, Hydrogen: A Renewable Energy Perspective, September 2019*

Until now though, costs have been the main constraint to hydrogen's dissemination. However, several initiatives are under way to lower them, such as the UN's Green Hydrogen Catapult. The nascent hydrogen economy will have an impact on many industries, including mobility and traffic, where the competitiveness of hydrogen transportation depends on fuel cell costs and refuelling stations. Another example is building heating and electricity, where hydrogen could be blended into existing natural gas networks. As a result, many companies are exposed to this growing hydrogen ecosystem, which is something we aim to cover with our Hydrogen Certificate (see box 'Talking hydrogen').

Technological advances make hydrogen production cheaper and more efficient, which along with the commitment of governments is helping to drive a new hydrogen economy. Is hydrogen the answer to reaching net zero?

According to a McKinsey study, over 30 countries have released hydrogen roadmaps and governments worldwide have committed public funding in support of decarbonisation through hydrogen technologies. No less than 359 large-scale projects have been announced along the value chain and it is estimated that the total associated investment through 2030 will amount to $500 billion. Technological advances make hydrogen production cheaper and more efficient, which along with the commitment of governments is helping to drive a new hydrogen economy. Is hydrogen the answer to reaching net zero? The prospects are compelling and there are high hopes that the most abundant element in the universe could finally help solve the world's drive to carbon neutrality.

To read the full article on hydrogen in digital format, please click here.

For more information on our Hydrogen Certificate as discussed with Sebastien Gyger, please contact your client adviser.

Talking hydrogen

Sebastien Gyger
Head of Fund Research
and Institutional Portfolios

Why have we launched a Hydrogen Certificate (H2C) in 2021?
Hydrogen responds to three major challenges facing the world's main regions.

- Energy independence, which is particularly true for Europe and developed Asia but also for China, which still depends largely on hydrocarbon resources from the Middle East, Russia and to a lesser extent Africa.
- The decarbonisation of the global economy since clean hydrogen is a critical link in achieving the zero-carbon goals set by governments.
- Re-establishing a domestic industrial footprint since Covid-19 has shown the fragility of global supply chains and the need to invest in local economies through green stimulus packages.

These issues require unprecedented cooperation between governments, industrial players and research centers. Judging from the number of countries that have so far implemented strategies to promote the development of hydrogen technology and the size of investments that are planned until the end of 2030, many companies are exposed to a growing hydrogen ecosystem. The certificate offers exposure to hydrogen-related companies well positioned to grow revenues and earnings as part of this thematic trend.

What is the investment process?
We have chosen to differentiate ourselves from competition by focusing the strategy on 25 actively managed stocks that display an above average exposure to the hydrogen economy. We invest across the entire value-chain into four sub-thematic hydrogen groups – core, infrastructure, carbon-alternative users and enablers. Our investment pool is the result of applying qualitative (thematic) as well as quantitative filters to our hydrogen universe. Our dedicated portfolio management team follows that process when selecting companies that meet our criteria.

INTERVIEW

Madrid calling

Our new wealth management office in Madrid builds on our long history of working with clients across Spain

Hugo Martin
Country Head, Spain
Rothschild & Co,
Wealth Management

It's 10pm on Friday 31 August 2021 and our Wealth Management team land in Madrid. Eight hours later they are setting up new offices in the Spanish capital. In the following interview, our Wealth Insights team discuss with country head Hugo Martin the strategic decision to open an office in Spain and the opportunities ahead. Hugo Martin has over 20 years of wealth management experience and has spent the past eight years at Rothschild & Co.

Why has Rothschild & Co decided to open an office in Madrid?

Our primary reason is strategic. We've taken a long-term approach to investing in the Spanish market in line with our strategy to grow our European Wealth Management business and strengthen our offering across key markets. Our Global Advisory business has had a presence in Spain since 1988 and as the Eurozone's fourth-largest economy, there was clear demand for wealth management services to follow.

The clear advantage of being onshore is the immediacy of seeing and serving clients locally. In addition, we can now better serve onshore clients free from an increasingly bureaucratic cross-border regulatory environment. While virtual meetings are manageable, nothing beats the personal touch you can give clients when face-to-face. With a good team already in place in Spain providing advisory services to corporate clients, it has been relatively easy to open our wealth management office, so as to serve existing clients' needs and meet new clients.

How can you build on the firm's existing Spanish heritage?

The Rothschild family enjoy a long and prestigious history in Spain synonymous with stability and reliability. As an adviser or lender to some of Spain's major names in the commercial and industrial sectors, such as Rio Tinto, Peñarroya and the Madrid–Zaragoza–Alicante railway line, our commercial heritage in Spain stretches back over 150 years (see timeline below). With this in mind, Rothschild & Co is well placed to weather the ups and downs of the Spanish market and its banking services, which historically have seen a high turnover in relationship managers. People appreciate the consistency that comes with a name like Rothschild & Co and we want our clients to participate in this story. On the ground, our offering is based on dual wealth management and Global Advisory services. In Spain, we are one of the few financial providers that can advise on M&A transactions and the sale of a company, while also knowing what to do with the proceeds.

Rothschild & Co in Spain

- 1844 — The Banco de Isabel II was founded in Spain with Rothschild participation.
- 1856 — The French Rothschilds began their involvement with the Spanish rail system through control of the Madrid-Zaragoza-Alicante Railway.
- 1870 — N M Rothschild & Sons, with de Rothschild Frères, jointly offered £2,318,100 Spanish Quicksilver 5% Mortgage bonds.
- 1888 — N M Rothschild & Sons were bankers for the Naval Construction and Armaments Company Limited share issue to raise funds to buy land in Bilbao, Spain to facilitate the construction of ships.
- 1895 — Official links between Rothschild and Rio Tinto began in 1895 with the underwriting of a share issue, followed by two further underwritings in 1905 and 1929.

What are the challenges Spanish clients face in seeking long-term wealth preservation?

One of our biggest challenges is to convince clients in Spain to look beyond the real estate market. With 80% of Spaniards owning property, this market plays a central role in the Spanish psyche. There is a general perception that property provides a stable yield. Unfortunately, people forget that it is also a highly illiquid asset class and prone to volatility as seen in the recent post-2008 Spanish real estate crisis. Thankfully, many Spanish investors have learnt a lesson from this difficult chapter. Liquidity concerns and diversification are now at the forefront of clients' minds, which fits well with our broad offering of liquid asset and private market investment opportunities where they can co-invest. Many clients are already taking risks in their daily business lives, so it is our responsibility to preserve and grow their financial assets in real terms.

Finally, a personal question. You just moved back to Madrid. How has the city changed in recent years?

Before moving to Madrid, I had lived in Switzerland for 15 years, so the bulk of my personal career I had spent in Geneva, Switzerland. This is also the case for the rest of the team which relocated to Madrid. Even though the team is Spanish, we have learnt to do things professionally in Switzerland. Now we must learn to conduct business in Spain. In Spain things move slower than in Switzerland and there is a strong administrative side to doing business. At the same time, we have removed all the cross-border issues we used to have when working from Switzerland, which makes our work a lot more dynamic. A positive element we bring from our Swiss days is a strong appreciation of client confidentiality, which Spanish clients appreciate – it's not so strong onshore. Being in Spain enables us to become specialists at serving clients onshore and to develop our expertise on the ground.

The pandemic has hit Spain more than most other European countries and the situation has been aggravated by two factors: an ageing population and a large tourist industry. Having said that, Spain today has one of the highest Covid-19 vaccine rates in the world. Consequently, Madrid has reopened, and the bars and restaurants are buzzing since people want to make up for the lost year. That means the infamous Spanish way of life is back on track and stronger than ever. When I compare it to the 2008 financial crisis, I have the impression that Spain has really learnt from the past, meaning that it now has better and more extensive regulation than in 2008. We are in a stronger place to bounce back.

This interview was held with Hugo Martin on 29 October 2021. If you would like to know more about our Spanish office and activities, please contact your client adviser.

Our Global Advisory presence

1988	Rothschild & Co España was established in Madrid to offer global advisory services to companies.
1989	Rothschild & Co acted as financial adviser to the state holding company INH on the corporate and financial restructuring and privatisation of Repsol.
1991	Rothschild & Co carried out a valuation of the business of Elsan, one of Spain's leading independent public works contractors.
1995	Rothschild & Co advised Grucycsa, one of Spain's leading real estate investors, on the 10bn pesetas placement of new shares, allowing it to diversify into real estate and urban services.
1997	Rothschild & Co advised the Spanish government on the sale of the state's remaining 21% holding in Telefónica de España.
2004	Rothschild & Co advised Telecinco, one of Spain's most viewed television channels, on its company's acquisition of Publiespana and subsequent IPO.
2005	Global Advisory open a new office in Madrid.

Our Mosaique Views

By asset class, region and sector

We moved single overweight in US healthcare, and down single overweight in US materials while remaining neutral cash and gold in the autumn of 2021.

Key	–		Neutral		+
Material overweight					●
Benchmark weight			●		
Material underweight	●				

	–		Neutral		+
Equities					●
Fixed income	●				
Money market			●		
Gold			●		

Fixed income	–		Neutral		+
EUR					
High-grade	●				
IG low-grade				●	
High-yield				●	
Duration		●			
USD					
High-grade		●			
IG low-grade				●	
High-yield			●		
Duration		●			
CHF					
High-grade	●				
IG low-grade				●	
High-yield				●	
Duration		●			

Gold	–		Neutral		+
Gold			●		

Currencies	–		Neutral		+
USD			●		
EUR			●		
GBP			●		
ROW			●		

Equity regions	–		Neutral		+
North America				●	
Eurozone			●		
UK			●		
Switzerland	●				
Japan			●		
Pacific (excl. Japan)			●		
EM EMEA			●		
EM Asia				●	

Equity sectors	–		Neutral		+
US					
Energy		●			
Materials				●	
Industrials				●	
Utilities	●				
Consumer discretionary				●	
Consumer staples	●				
Communications*			●		
Healthcare				●	
Technology				●	
Financials				●	
Real estate		●			
Europe					
Energy		●			
Materials					●
Industrials				●	
Utilities		●			
Consumer discretionary				●	
Consumer staples	●				
Communications*			●		
Healthcare			●		
Technology				●	
Financials			●		
Real estate		●			

** Formerly the Telecoms sector.*

Note: Our Mosaique Views are taken as of 1 November 2021 and are updated at every asset allocation meeting. For the latest Mosaique Views, please contact your client adviser. Graphical positioning is for illustrative purposes only.

Investment Insights

At the heart of Investment Insights lies a wide set of timely and insightful publications, podcasts and videos.

For more information on our Investment Insights, please visit our Wealth Insights page at www.rothschildandco.com/insights

Subscribe to updates

Contact your client adviser if you would like to receive the latest quarterly updates on Mosaique and LongRun strategies by email.

Rothschild & Co
Wealth Management

Mosaique quarterly update
October 2021

[Salutation] [Client Name]

We hope this finds you and your family safe and well.

I am pleased to share with you the quarterly update for the Mosaique Strategy for the third quarter of 2021 including factsheets for all currencies and risk profiles available.

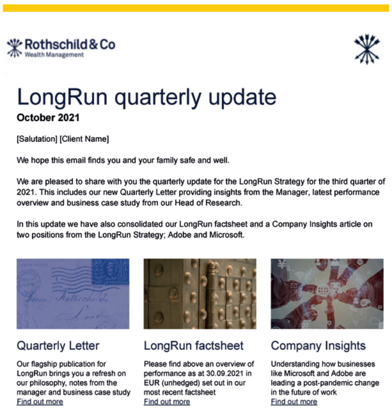
In this update we have consolidated our Mosaique Views, Strategy Podcast, Bi-annual Snapshot and Mosaique Factsheets so as to provide an overview of our views, performance and analysis.

Mosaique Views

In our latest Mosaique View we explain our current positioning by asset class, region, sector and currencies including the reasoning behind our investment decisions.

Strategy Podcast

Whilst you were away…with updates from our Global Investment Strategists, our latest video is designed to bring you up-to-speed on our latest thoughts and analysis.



Rothschild & Co
Wealth Management

LongRun quarterly update
October 2021

[Salutation] [Client Name]

We hope this email finds you and your family safe and well.

We are pleased to share with you the quarterly update for the LongRun Strategy for the third quarter of 2021. This includes our new Quarterly Letter providing insights from the Manager, latest performance overview and business case study from our Head of Research.

In this update we have also consolidated our LongRun factsheet and a Company Insights article on two positions from the LongRun Strategy; Adobe and Microsoft.

Quarterly Letter

Our flagship publication for LongRun brings you a refresh on our philosophy, notes from the manager and business case study
Find out more

LongRun factsheet

Please find above an overview of performance as at 30.09.2021 in EUR (unhedged) set out in our most recent factsheet
Find out more

Company Insights

Understanding how businesses like Microsoft and Adobe are leading a post-pandemic change in the future of work
Find out more