Issue 05 | Winter 2021

Mosaique Insights

Rothschild & Co
Wealth Management

FOREWORD

“Through chaos as it swirls, it’s us against the world”

These lyrics by platinum-selling artist Coldplay, published in 2011, resonate with many of us as we look back at 2020 and the impact the pandemic has had on our lives.

As we step into 2021 and remember a winter of record snowfalls, lockdowns and inaugurations, we want to continue with the lyrics of that Coldplay song and “*slow it down*”.

In this edition of *Mosaique Insights*, it’s time to take a closer look at the topic of change / paradigm shifts. Many have called 2020 a decade in 12 months. Despite its many challenges, our ‘Notes from the manager’ remind us how we continued to deliver in the long-term preservation of your wealth over the last year.

The pandemic has also allowed our Strategists and Insights teams to take a fresh look at how different (or not) the global economy will look after the crisis, and which companies we research are benefiting from the future of work in a post-COVID age.

“Like a river to a raindrop I lost a friend”
We are delighted to bring you two interviews in this edition from *David Mayer de Rothschild*, a life-long advocate for environmental awareness, and *François Pérol*, our Head of Wealth and Asset Management at Rothschild & Co. From the role of explorers in raising environmental awareness to how the financial industry needs to address the climate crisis, these guest interviews bring you insights into a rapidly developing topic for the years to come.

No edition would be complete without our latest views from our advisory team. Following these interviews, we shed light on how the race to carbon neutrality and ambitious government targets translate into tangible investment decisions for companies in your portfolios.

We wish you and your family a safe and prosperous 2021, one where change and the familiar mix hand-in-hand.

Laurent Gagnebin
CEO, Rothschild & Co Bank AG

Dr. Carlos Mejia
CIO, Rothschild & Co Bank AG

Cover image: When our world emerges from the winter lockdowns, the economic recovery should gather pace

Produced by: William Haggard, William Therlin and Julia Bergman.
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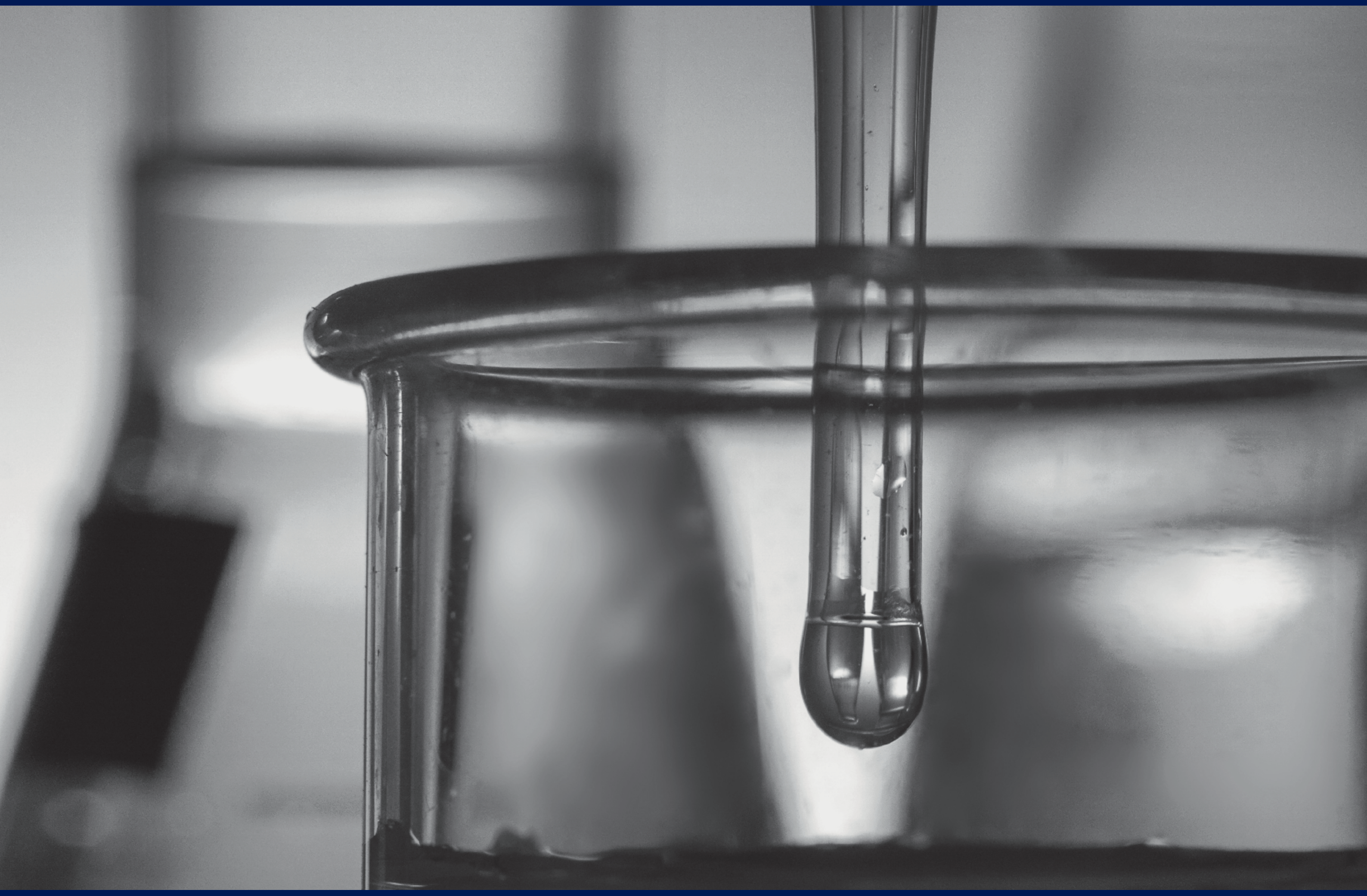
Familiar trends
with new momentum

Portfolios and the pandemic



Rothschild & Co
Wealth Management

Notes from the manager

We look back at a challenging year for investing to assess how Mosaique portfolios performed.

Gianluca Ricci
Head of Portfolio Management

What a year! 2020 has been characterised by a lot of surprises – a pandemic, the sharpest and fastest market recession (and rebound) in history and an equity market that has closed the year in positive double-digit territory thanks to unprecedented monetary and fiscal stimulus.

Despite markets falling by more than 20% in March, a balanced Mosaique portfolio (comprising around 50% equities) closed the year with gains of around 5% in Swiss francs, 4% in euros and 12% in US dollars. Once again, portfolios have shown their resilience as most of the companies we invest in have adapted to the COVID-19 era. The result – a fourth year of outperformance for balanced Mosaique portfolios versus the ARC private client index (figure 1).

A robust investment process

Building our track record requires a robust investment process, based on strategic positioning and long-term due diligence across our asset allocation and security selection.

This process starts with our asset allocation committee which assesses the global macro and geopolitical outlook, the business cycle and market valuations. At any one meeting, there is no less than an average of 15 years of experience held by members of the committee. As you can imagine, in 2020 we held almost daily calls in March and April, and weekly calls around the US election.

The outcome of this review process is our tactical asset allocation, which you can follow in our bi-monthly publication *Mosaique Views*.

Figure 1: A resilient performance

Mosaique portfolios have outperformed since 2017 (%)

	2017	2018	2019	2020	Cumulative
Mosaique Balanced EUR	5.30	-4.32	14.38	4.17	20.04
ARC	5.20	-6.90	12.10	3.00	13.09
Mosaique Balanced USD	11.39	-4.80	16.30	12.18	38.35
ARC	10.70	-5.70	14.10	9.60	30.54
Mosaique Balanced CHF	9.01	-5.72	12.82	4.87	21.60
ARC	8.20	-8.60	11.70	2.20	12.90

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.

Watch: A year in review

For a 10-minute review of performance by our discretionary and advisory teams, please watch our 2020 reviews here and enter the password: *investmentupdate*

Many of our tactical calls have proved successful this year. In terms of equity sectors, we underweighted financials and energy and overweighted technology and communication services. In terms of regional allocation, our overweights in the US and Emerging Asian markets versus Europe and the UK also bore fruit. Turning to our security selection process, during the crisis in March – and as part of our ongoing processes – we ensured that our analysis for the pieces we selected as securities to create Mosaique portfolios were still valid. This included:

- A full review of the business models of our stocks
- Analysis of the balance sheet strength of all the companies in fixed income investments
- Monitoring the risk limits of your portfolios.

Security selection

Inherent in the security selection process is style: namely, what criteria do we look for in the companies we include in portfolios and what "shape" the portfolio has as a whole. We prefer securities – be they equities, fixed income, funds or ETFs – that are not heavily reliant on the economic cycle to generate returns but have intrinsic qualities to their businesses that will stand the test of time.

Although we could chase outperformance vis-à-vis benchmarks in the short term by abandoning our preference for quality companies, our overriding goal is to protect your wealth for the long term. I'm happy to say that security selection has once more been a strong driver of performance in 2020, while our chosen style has afforded our clients a degree of comfort and confidence in portfolios during an already stressful year.

Looking forward

2020 saw the events of a decade take place in the space of 12 months. Turning to 2021, we start from the premise that it will be another year full of challenges. In the current climate we remain alert to the ongoing crisis. Recent vaccine news has clearly improved growth expectations for later this year, but we should not expect wide-scale viral immunity anytime soon.

The process of recovery is unlikely to be linear and there will be setbacks on the road ahead. We must view these setbacks as opportunities and deploy our people and investment processes to ensure that we continue to preserve your wealth over the long term.

After the pandemic

How different will the economy that exits the crisis look from the one that entered it?

Kevin Gardiner
Global Investment Strategist

American philosopher Thomas Kuhn's *The Structure of Scientific Revolutions* (1962) introduced the notion of a "paradigm shift". Nowadays we see them everywhere, especially after a sensational 2020, but not always with good reason.

Kuhn was taking issue with the idea, associated with Karl Popper (another philosopher), that scientific knowledge accumulates incrementally, by the repeated subjecting of hypotheses to empirical testing – knowledge being all those conjectures that have not yet been refuted by facts.

> The most significant aspect of 2020's slump was the fact that it was not primarily an economic event at all, but a public health emergency with potent economic consequences. The global economy was not ill, we were.

Kuhn argued that science seemed instead to progress in leaps and bounds, as entire worldviews – or "paradigms" – were overthrown. For example, the realisation that the earth revolved around the sun, and not vice versa; or the replacement of Newtonian mechanics by general relativity.

He didn't have the last word. Others went further, and argued against all method, suggesting that science progresses even more anarchically. But he captured something recognisable, and the term moved into wider usage.

So much so, that we routinely talk of paradigm shifts in economics and finance, and 2020 is believed to have sparked a whole truckload of them.

Unfortunately, economic knowledge is especially elusive at the best of times. Our data is poor; we can't do controlled experiments; the subjects we'd experiment on, if we could, frustratingly have minds of their own; and many economic theories are not empirical to begin with.

Even epidemiologists were unsure in 2020. Politicians and the public deferred to "the science", but there was less agreement about the complex transmission models than about the biological processes being transmitted. Science delivered vaccines, but not a clear view of the relative roles played in spreading COVID-19 by, for example, "superspreader" events, family gatherings, restaurants and door handles.

What's going to change?

For economies, a commonly heard refrain was that "this changes everything", from the mundane (the way in which we meet) to the profound (the motivations underlying economic behaviour, and the paradigms we use to explain how economic society functions).

While recognising the pandemic's humanitarian impact, we think the lasting economic effects may be smaller, and less "paradigmatic", than the more excitable accounts suggest.

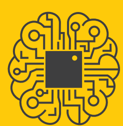
We thought the most significant aspect of 2020's slump was the fact that it was not primarily an economic event at all, but a public health emergency with potent economic consequences. The global economy was not ill, we were.

This suggested that if and when we (society) felt able to relax the controls, economies would be able

Old trends, new impetus

From online transactions to more ESG-informed investing, certain trends stand out as having gained significant traction during 2020

Digital transformation*



eCommerce

ESG investing

Action against climate change

See Insights article on page 7 for more information.

to reopen, provided that the damage done in the interim was manageable – and massive amounts of fiscal and monetary support were expended in trying to ensure that might be the case.

We saw during the summer that people did indeed still want to meet, to travel, and to spend generally. Through the second half of 2020, the major western economies were rebounding (figure 1), and doing so faster than central banks and economists generally had expected (the Chinese economy, of course, had ironically already more than retraced its lost ground). In the US and Germany, data was surprisingly resilient right through to year-end – that is, well into the second wave of contagion and controls.

The idea that somehow society would become less materialistic as a result of the pandemic was always fanciful. Many households simply don't have the luxury of being able to save: they can't afford not to spend.

Spotting old and new trends

There must be some lasting impact. Few will relish returning to crowded subways, and some business models will not be able to adapt to sustained social distancing. Many jobs and businesses will sadly have slipped between the cracks in the various support schemes, and some lasting damage to the economic infrastructure will have been done.

But as noted, not all change has to be paradigmatic, and some genuine trends are neither new nor worrying – such as increasingly "virtual" economies and online transacting (see box 'Old trends, new impetus' on page 5). Growing environmental awareness and a closer focus on ESG-informed investing are neither new nor unwelcome trends.

We are a little more concerned at a couple of incremental changes. The IMF accepted the sustainability of most government debt, while towards year-end the *Financial Times* decided stock markets were not in a bubble. We agree with both, but like Groucho Marx we are not especially keen on being in such a club.

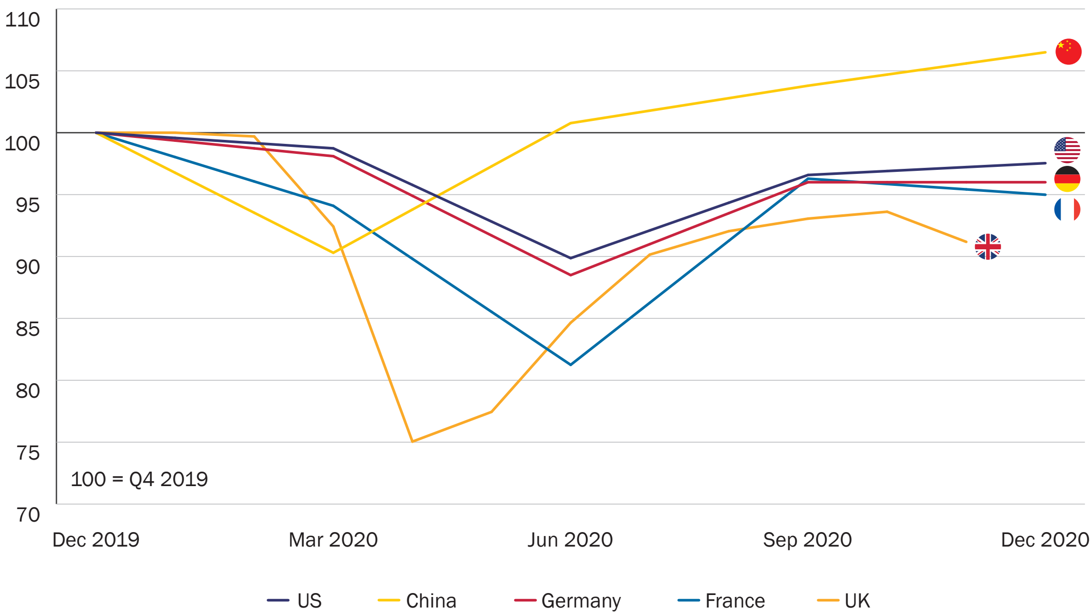
The biggest proposed paradigm shift concerned the challenge posed by newly expanded governments to capitalism itself. We don't see them shrinking back to their pre-pandemic size quickly, but we doubt that bigger government will be permanent.

The self-interest that characterises capitalism is, like gravity, a fact, not a hypothesis. We may change how we view the interactions of the agents under its power, but we can no more imagine an economy functioning adequately without it than the Inquisition, Copernicus, Newton or Einstein could imagine a universe without gravity.

Last year was dramatic and emotional. Economic data moved in unprecedented ways. Nonetheless, the world may not have changed that profoundly. Long-term investors need not drastically restructure their portfolios.

Figure 1: Bouncing back

Economies rebounded during the summer as lockdown measures relaxed (real GDP)



Source: Strategy Team Rothschild & Co, Bloomberg. Correct to January 2021.

The future of work

Interviews with three companies we research bring you an insight into the future of work.

William Haggard
Head of Investment Insights

Christoph Wirtz
Equity Analyst

The past year has been a seismic one for disrupting the way we work and accelerating an existing trend – digital transformation. From cloud computing to signing contracts online, remote working to business communication platforms, we explore how three companies in our portfolios – Adobe, Logitech and Microsoft – have taken advantage of the shift to digital in 2020 and how they are positioned to prosper from the future of work.

As noted by our Global Investment Strategist, digital transformation did not begin with the pandemic. Yet the events of the last year have accelerated the shift to digital according to some 70% of company executives surveyed[1] in 2020. This acceleration has come hand-in-hand with the necessity for many companies to operate remotely during consecutive waves of national lockdowns. Examples of digital transformation include:

- Banks moving client meetings online and on-premise infrastructure to the cloud (see box 'Cloud thinking')
- Healthcare services launching online medical consultation and prescription apps
- Property businesses imbedding eSignature and digital contracts for virtual exchange and completion of properties.

A key area of adapting to the health crisis has been the rapid development of working-from-home solutions for employees. Coupled with the rise in cloud services, this has led to a spike in businesses investing in digital software, office collaboration tools and home-office hardware. This has benefited companies servicing this area like **Microsoft**, **Adobe** and **Logitech**. As noted by the CEO of Microsoft: *"...we have witnessed two years of digital transformation in two months due to COVID-19."*

Looking ahead

Will digital transformation provide long-term growth opportunities for these companies? According to data from Europe's largest trade fair for digital industries – held entirely virtually in 2020 with 20,000 participants – the shift to digital will outlast the pandemic (figure 1).

Such data is supported by CBRE, the world's largest commercial real estate services and investment firm, which suggests that over 70% of organisations anticipate more employee choice over when and where they work.[2]

We believe a hybrid model of remote and onsite work environments will become the norm for a number of key sectors (see figure 2 for more details).[3]

This new normal will be made possible by the capital expended in digital transformation which companies have committed to during the 2020 pandemic. As noted by an investor relations officer we spoke to at **Adobe**: *"Once companies go digital*

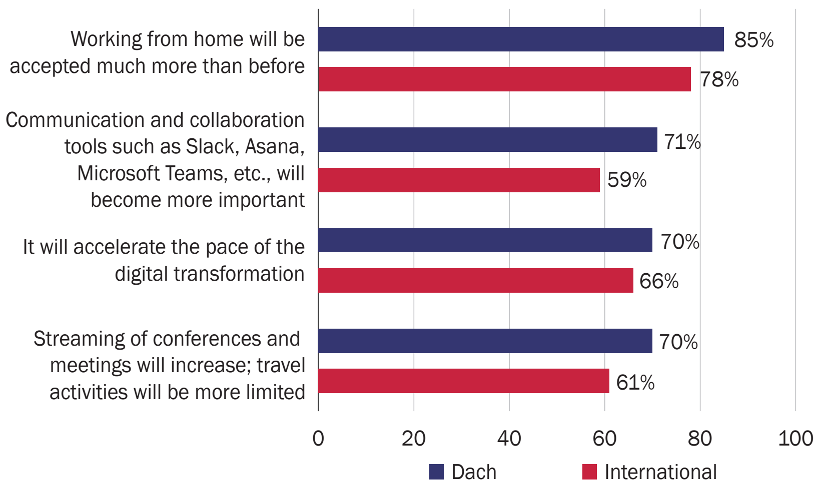
[1] *DMEXCO Survey for the DACH Region (Germany, Austria, Switzerland), 3 April 2020*

[2] *"The Future of the Office Survey", CBRE, September 2020*

[3] *"What's next for remote work", McKinsey Global Institute, November 2020*

Figure 1: The shift to digital

A survey at the DMEXCO 20 trade fair for digital industries suggests the shift to digital will outlast the pandemic



Source: Rothschild & Co, DMEXCO 20.

Cloud thinking

From Microsoft's Azure and Amazon Web Services to Adobe's Creative and Document Cloud services, the cloud has become a critical piece of infrastructure for businesses during the pandemic. Highly scalable, resilient, secure and more cost effective than onsite infrastructure, businesses are increasingly confident about moving their mission-critical business processes to the cloud. In our view, the logical consequence of the 2020 pandemic will be that businesses accelerate their mid-to-long-term migration plans and demand for cloud services continues to grow.

they don't go back…2020 was not so much a change in direction so much as a leap forward by a couple of years for existing digital trends."

For Adobe, this means creative and document cloud services, as well as customer experience management tools, will enjoy long-term growth visibility. In hybrid work environments, customers and businesses need to exchange, sign and share documents digitally, while governments and legal entities are migrating to electronic signatures software and banishing printers, ink and scanners. With this shift to paperless transactions, Adobe's document cloud tools and services remain in prime position to capture as well retain business customers through its subscription business model – a concept we explore in more detail in this Instant Insights.

Investing in communication platforms

With the future of work looking increasingly hybrid for many in professional services, companies have also invested heavily in communication platforms, with **Microsoft** benefiting from a surge in demand for its **Office 365** software and collaboration platform, **Microsoft Teams**. As noted when speaking to Microsoft: *"Although there may be fewer spikes in demand for business communication platforms in a post-COVID world, customers and workers will need to remain connected in a hybrid world of on-site and remote working."*

In addition, most employees working from home require Windows software for their laptops. This will drive a trend towards two Windows devices per worker, fuelling growth. Far from becoming redundant when we go back to the office, the demand for digital integration will drive sales in virtual collaboration platforms and Windows software going forward.

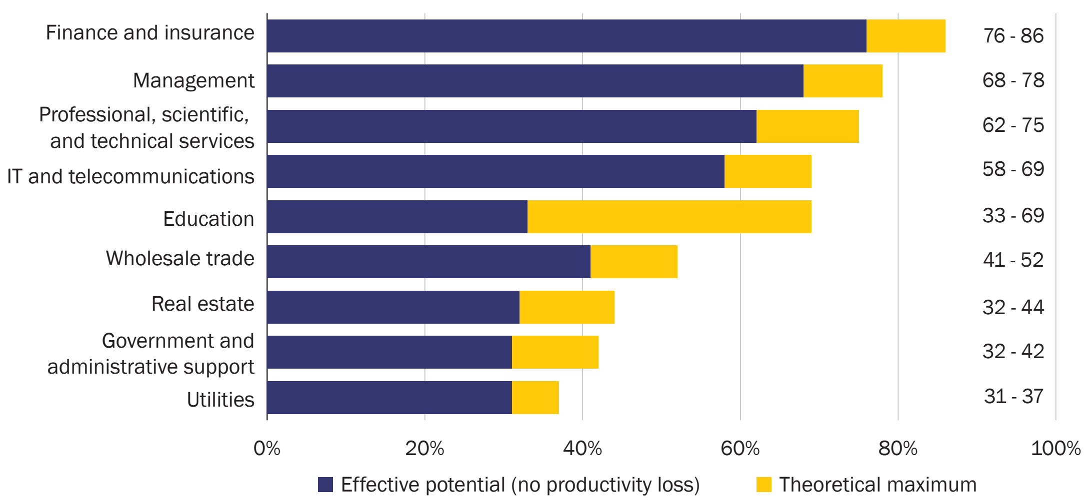
But where does that leave the world of physical hardware? While the age of office desktops is waning, specialist provider **Logitech** has cornered a market in the sale of computer peripherals such as monitors, webcams, mice and keyboards. Similar to sales of Windows software, sales in these products have boomed with the shift to remote working. Replicating onsite office equipment at home for the 2020 pandemic was a clear factor in driving an 85% increase in revenue and tripling of operating income in Logitech's third-quarter earnings results.

While this surge in demand may have peaked, a hybrid workspace, requiring strong digital platforms for the interconnection of onsite and at-home employees, will rely heavily on the sophisticated hardware which companies like Logitech provide. We expect company and personal spend to remain high in this area in a post-COVID world.

Across the companies we have looked at it is clear that 2020 saw a paradigm shift in business demand for going digital. The winners of this trend, however, do not depend on lockdowns to thrive. Instead, companies like **Adobe**, **Microsoft** and **Logitech** have been selling into the need for digital transformation over many years. From our interviews with these companies, what is clear is that they will continue to prosper long after we return to the office.

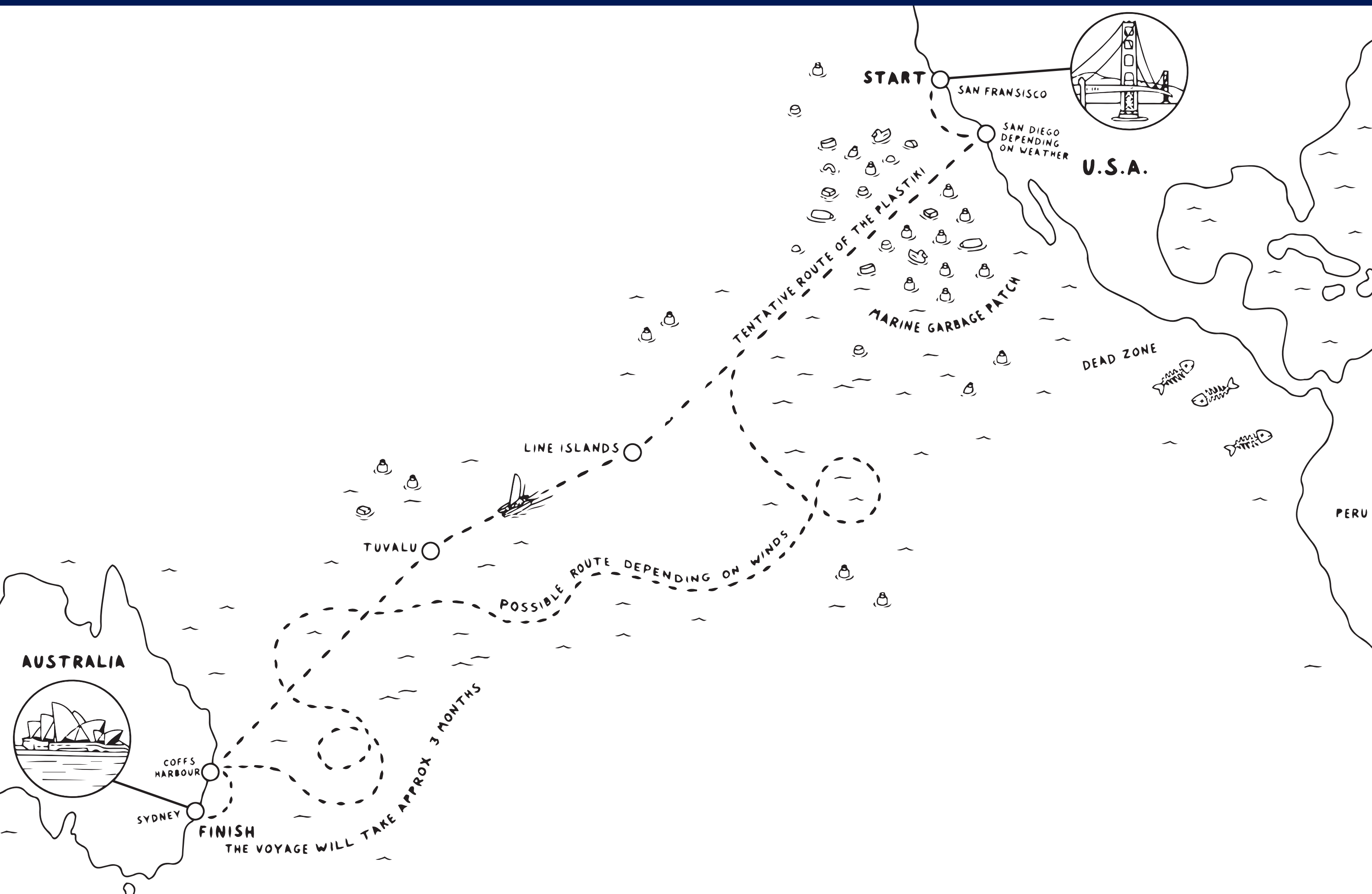
Figure 2: A hybrid model

The finance, management, professional services and information sectors have the highest potential for remote work



Source: Rothschild & Co, CBRE.

Familiar trends
with new momentum
Understanding our environment



Rothschild & Co
Wealth Management

INTERVIEW

Responsible attitudes

François Pérol, Head of the Wealth & Asset Management division, explores how Rothschild & Co is responding to the growing call to address climate change.

François Pérol
Managing Partner of Rothschild & Co and Head of Wealth and Asset Management

Interviewed by:

Geraldine Gouges
Head of Responsible Investments at Rothschild & Co

William Haggard
Head of Investment Insights

[1] https://www.rothschildandco.com/siteassets/publications/rothschildandco/group/2020/en_2020_randco_investment_guidelines_thermal_coal.pdf

Last year China pledged to be carbon neutral by 2060, President Biden said the US would rejoin the Paris Climate Agreement and the EU continued to implement its climate-neutral 2050 strategy. In light of these initiatives, what role can the financial sector play in the fight against climate change?

The ambition to fight climate change articulated by different governments around the world in 2020 is a key starting point. It helps to define a common course, provides clear leadership and puts many nations on the same page. It also supports local and supranational roadmaps, which in turn provide guidance on concrete steps to be taken by different sectors of the economy in combating climate change. An example of this is the EU's European Action Plan on Sustainable Finance for the financial sector.

At Rothschild & Co, we are convinced that the financial sector has a key role to play in the fight against climate change. It acts as the catalyst for funding innovation and can reallocate financial flows to sectors or players that are transitioning towards a low carbon economy.

Investors have two main courses of action:

1. Make ESG considerations part of their investment processes to drive capital flows towards companies committed to climate change transition.
2. Engage with companies regarding their business and environmental practices to persuade them to embrace a positive environmental trajectory.

The commitment of the financial sector to fight climate change started a few years ago. Over the last 24 months, we have seen this accelerate, as highlighted by the attractiveness of climate investment products and the growing influence of collaborative engagement initiatives against the backdrop of the global pandemic.

By scoring physical and transition risks from climate change we have better visibility over the impact it will have on our portfolios.

How are we at Rothschild & Co working to combat climate change as investors?

The way we invest our clients' wealth is key to playing a positive role in the fight against climate change. While most of our investment businesses have adopted environmental, social and governance (ESG) policies over the last few years, we decided to go one step further in 2019 by defining an ESG 2022 roadmap to provide a common structure for our activities across our Merchant Banking and Wealth & Asset Management services.

Our responsible investment strategy defines a set of common objectives across all business lines and ensures that there is a consistent and effective framework for ESG integration, engagement activities and product development. You can read more about our responsible investment roadmap in the upcoming annual report to be released in March 2021.

Looking at practical examples of combating climate change, in 2020 all of our investment teams adopted investment principles for the thermal coal sector in line with the international coal phase-out schedule. In accordance with these principles, our investment teams will not invest in or lend to companies engaged in new and/or expansion projects for thermal coal mines or thermal coal-fired power plants, nor in companies with thermal exposure above certain thresholds, unless they implement a credible thermal coal exit strategy.

Another example is the integration of climate factors into the investment processes by our Wealth Management team in Switzerland, an approach that identifies both physical and transition risks for those companies we invest in. By scoring this risk, we can have better visibility over the impact climate change will have on our portfolios.

Finally, another example is our support for collaborative engagement initiatives. All business lines are signatories to the UN's Principles of Responsible Investing and, on the specific topic of climate change, our Asset Management business in Europe joined the Climate 100+ initiative in 2019 to encourage the world's largest corporate greenhouse gas emitters to take the necessary action on climate change. Across the business we also support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and will progressively align our approach to climate risk with the TCFD's disclosure recommendations.

One of our targets is to procure 100% renewable electricity for all our offices by 2025.

What steps are we taking to identify carbon emissions from operations and reduce our direct environmental footprint?

We have engaged in several initiatives to minimise our environmental impact as a business. One of our targets is to procure 100% renewable electricity for all our offices by 2025. By the end of 2019 we procured renewable electricity for 56% of electricity which we consume. As a further measure, we have set an internal carbon price (ICP), which places a monetary value on greenhouse gas (GHG) emissions and aims to influence employee behaviour to limit them (see figure 1 for an overview of our GHG emissions in previous years). The financial support stream generated from the ICP can be used to develop further small-scale carbon-reduction opportunities and sustainability projects.

In 2020 we also achieved our target to limit the negative environmental impact from the use of office materials by ensuring we procure all our paper from sustainable sources. This is in addition to our commitment to reduce unnecessary single-use plastic items in our offices. To date, 27 offices are free of unnecessary single-use plastic.

In a further effort to minimise risk and promote transparency, we annually submit a report to the CDP climate change disclosure process. In 2020 we achieved an ‘A-‘ rating.

Looking ahead, does Rothschild & Co see an increase in demand for responsible investing and, if so, how is the business positioned to respond?

While the global economy has been hit hard by the COVID-19 crisis and investors have pulled out of more traditional funds, ESG funds have retained investor confidence throughout the pandemic.

In the coming years, we expect an increase in demand for responsible investing driven by clients’ growing awareness of ESG issues and appetite for ESG-focused products, as well as the evolution of the regulatory environment, with a strong push from European policymakers to embrace a ‘green recovery’.

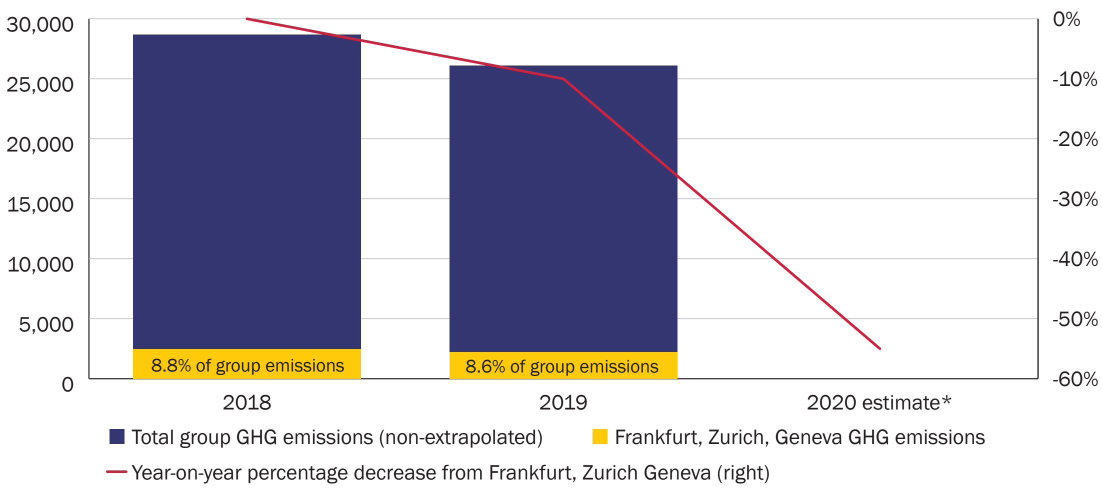
The COVID-19 crisis has also played its part in accelerating this trend as it has highlighted the link between the pandemic and biodiversity loss caused by industrial farming practices. Responsible investing is a key business opportunity and challenge for Rothschild & Co as we look ahead to life after the pandemic.

Find out more

To find out more about how our Wealth & Asset Management and Merchant Banking services are integrating our responsible investment strategy into products and services, please see our 2020 Annual Report to be released in March 2021.

Figure 1: We continue to reduce our greenhouse gas emissions

An overview of our progress towards cutting greenhouse gas (GHG) emissions. Given Covid-19 restrictions it is estimated that 2020 will see a 55% decrease in GHG emissions.



Source: Rothschild & Co.
**Abnormal year due to COVID-19 restrictions.*

Rothschild & Co has been awarded “climate neutral” label for 2018 and 2019 by reporting scope 1, 2 and 3 operational emissions, developing a GHG reduction plan, setting a GHG reduction target and compensating for unavoidable emission.

INTERVIEW

Calling all explorers: boats, plastics and a life less ordinary

David Mayer de Rothschild shares his thoughts on shifting attitudes to the environment over the past decade.

David Mayer de Rothschild
Founder of Voice for Nature
voicefornature.com

Interviewed by:

Julia Bergman
Investment Insights & Marketing Specialist

In March 2010, a group of explorers and environmental activists led by David Mayer de Rothschild set sail on a 60-foot catamaran made out of 12,500 reclaimed plastic bottles – fittingly named the Plastiki – leaving the shores of San Francisco behind and heading west into the horizon. In July that year, the Plastiki and its crew arrived safely in Sydney Harbour, concluding a four-month journey covering 8,300 nautical miles. Now 10 years on, David shares his thoughts on where the environmental movement stands today and what it truly means to be an explorer.

In 2010 you led the expedition on the Plastiki. 10 years on, has the world come as far as you would have hoped in tackling plastic waste?

When we set sail 10 years ago (see the map on page 9), the issue of oceanic plastic waste was still very new and there was far less awareness of how our toxic love affair with plastic was having a detrimental effect on the planet (figure 1). As time has passed, we've seen a huge uptake in awareness driven by environmental campaigns from the media, businesses and individuals. You can't just rely on the headlines though, there must be real-world action to reduce our dependence on these materials. For all the desire to change habits, there remains a flawed system built around disposability. Single-use consumption, even beyond plastics, is deeply ingrained in our everyday lives, making it a very difficult cycle to break.

Nevertheless, we must start from an understanding that a new way is possible, and I believe we are seeing a change in people's habits. Exploring new options for how we do things, using different materials or creating new ways in the design, disposal and re-use of materials is key. In the last 10 years we have come some way, but there is still a long way to go and momentum is critical. Now it's time to double down on our efforts to find the right leaders inside of business and government to legislate, innovate and eradicate harmful single-use plastics.

> **Our fragility has been exposed by the pandemic and we now see how interdependent we are on each other.**

There is much talk of changing consumer behaviour as a result of the 2020 global pandemic. Do you think the last year will impact consumer behaviour in a way that could affect the environmental movement?

2020 will go down as an extraordinary year – few could have foreseen what has and continues to unfold and it is still not clear what the effect of the pandemic will be on both people and the planet. The shock has in some ways brought us closer again to the natural world. If we are to continue to live on this planet, we need to align our way of life with our natural surroundings. Without a healthy ecosystem, we will not be able to sustain ourselves as a species.

Our fragility has been exposed by the pandemic and we now see how interdependent we are on each other. Our mobility and way of life has also led to the COVID-19 virus becoming deeply ingrained across the globe. Yet I am confident we are resilient and will find new systems to adapt. Modern science has proven that it can help to mitigate the side effects of the pandemic. Many reports that look at the narrative around a degraded environment describe all the symptoms that have manifested themselves during the COVID-19 pandemic. If anything comes out of this, it will be a realisation that we need healthy, resilient ecosystems to sustain life on this planet as we know it.

2019 was a seminal year for the environmental movement, thanks in part to widespread global protests led by dedicated youth activists such as Greta Thunberg. How has the pandemic affected this movement?

2019 was a seminal year for a once fragmented environmental movement as it came together, galvanised by voices like Greta Thunberg – an incredibly articulate, strong young woman who showed the world that every individual has a role to play and needs to stand up for what's right. Although marching in the streets was suspended by the pandemic in 2020, this has allowed the environmental movement to become more organised. A much deeper digital movement is starting to gain momentum and sink into parts of society that might not have been exposed previously.

I'm excited to see what comes out of the environmental movement over the next few years as new leadership around the world has begun to advocate for environmental sustainability, whether inside business or in politics. We need people like Greta Thunberg to act as beacons of hope. The influence that she's had on the next generation is enormous and we'll start to see that take hold over the coming years.

You remain the youngest person to have reached both geographic poles – why did you undertake this journey and how has the notion of exploration changed in the modern world?

I think in today's culture there's a misunderstanding of what being an explorer means. There's a sense that exploring is about conquering nature, but for me, exploring is understanding and spending time in nature. Breaking records is nice for the ego, but ultimately, they're not important. What's important – if you're lucky enough – is to be able to go out into those environments and tell stories that help us better understand the natural world.

Rather than being the fastest, or the quickest, or the first, I think being an explorer is about (often) being the slowest and taking the time to figure out how natural systems work, where our place is within them, and how to bring these ecosystems to the attention of others.

We're in a golden age for exploring. We have tools and devices that allow us to view the world like never before, and then disseminate the information through what I call 'weapons of mass distribution' – through the web, through our phones and through communities all over the world. Today we have a very connected generation who absorb this information and use their devices to promote the things that are important to them.

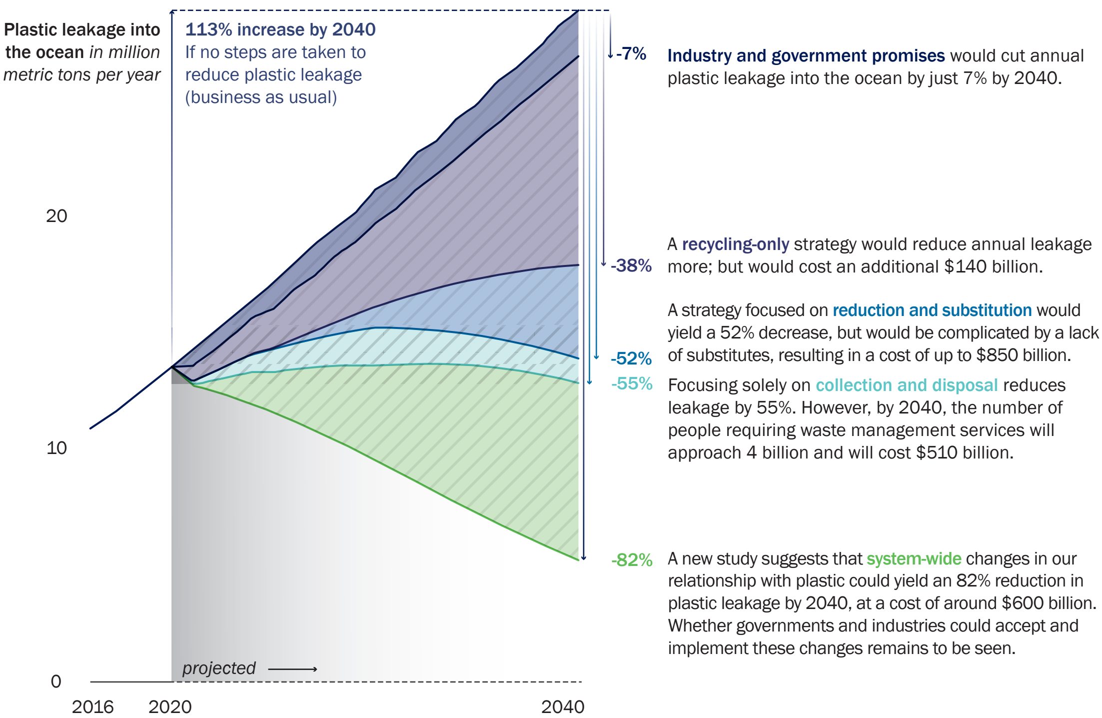
As explorers, our primary goal is to be messengers for the natural world, telling inspiring stories in a creative way that connect people and bring them back to those places, so that they ultimately help protect them. Taking us back to the start, this was the aim of the Plastiki project. In an increasingly interconnected world, citizens are more conscious than ever of environmental issues and the need to take action. With that in mind, it's more exciting than ever before to be an explorer in today's world!

What's next for Plastiki?

Plastiki will return from semi-retirement later this year, when we aim to showcase it at the 2021 United Nations Climate Change Conference in Glasgow in November, followed by a tour of the UK, where Plastiki will continue to raise awareness and shine a spotlight on solutions to address the plastic waste in the world's oceans.

Figure 1: The problem with plastic

With no changes to current production, consumption or waste management of plastic, by 2040 almost 30 million metric tons of plastic will end up in the ocean per year.



Source: National Geographic, PEW Charitable Trusts, Systemiq, Rothschild & Co.

The opinions or views expressed in this article are those of the interviewee. They do not purport to reflect the opinions or views of Rothschild & Co.

The race to zero

Last year was a pivotal year in the fight against climate change, and carbon neutrality is now firmly on the agenda.

Erdinç Benli
Head of Investment & Portfolio Advisory

Stephanie de Saint-Marcq
Investment and Portfolio Adviser

As noted by François Pérol (see Responsible attitudes on page 10), 2020 has been transformational for government policy seeking to tackle climate change. With carbon neutrality on the agenda of economic power houses (US, China, EU, UK and Japan), corporates have been swift to follow suit. From energy majors to banking giants, we've seen the likes of BP and HSBC aiming for net zero carbon emissions by 2050.

Turning to the world of investments, a group of 30 asset managers with combined assets of $9 trillion have signed a 'Net Zero Asset Managers' initiative, aiming for net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C in accordance with the 2015 Paris Agreement (see box 'What do we mean by 'net zero emissions'?'). Leading the pack in January 2020 was BlackRock, the asset manager overseeing almost $8 trillion of assets, which announced a shift towards sustainability across its investment spectrum.

Both financial and non-financial stakeholders are coming together in order to try and minimise the risks of climate change to people, business, economies and global financial stability.

Stepping back, both financial and non-financial stakeholders are coming together to try and minimise the risks of climate change to people, business, economies and global financial stability. The financial risk of climate change for business and investors can be divided into two types of risk: physical risk and transition risk. This means that the value of financial assets and liabilities can be affected either by the actual or expected economic effects of climate change (physical risks), or by the necessity to adjust towards a low-carbon economy (transition risks).[1]

How do ambitious pledges by governments, cities, corporations and civil society at large translate into action?

Six nations have passed laws formally establishing net zero targets: Sweden and Scotland by 2045, and the UK (as a whole), France, Denmark and New Zealand by 2050.[2] This year, the COP26 UN summit in Glasgow is seen as a make-or-break moment for the fight against climate change. The meeting, postponed to November 2021 due to COVID-19, will bring world leaders together to discuss how to achieve the goals set out in the 2015 Paris climate accord.[3]

How can investors navigate the path to a carbon neutral world?

New legislation is guiding listed companies in their disclosure efforts on the topic of carbon emissions. This gives investors more transparent and comparable data when factoring carbon emissions and climate change into their investment decisions. The Task Force on Climate-related Financial Disclosures (TCFD) is an international body making recommendations on climate change-related disclosures. The TCFD's recommendations continue to be adopted internationally – more than 1,500 organisations have now voiced their public support, and more than 110 regulators and government organisations are TCFD supporters.[4]

What do we mean by 'net zero emissions'?

Net zero refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere. There are two routes to achieving net zero emissions, which work in tandem: reducing existing emissions and actively removing greenhouse gases. The net zero target recognises that some emissions are not preventable but that these need to be fully offset, predominantly through natural carbon sinks such as oceans and forests.

[1] *'The Implications of Climate Change for Financial Stability', FSB, November 2020, page 1*

[2] *'UK net zero target', Institute for Government, 20 April 2020*

[3] *'How to stay ahead of the ESG curve in 2021', Financial Times*

[4] *'2020 Status Report', TCFD, page 1*

[5] *For the assessment of the ESG track record and carbon exposure risk we rely on MSCI ESG research.*

Increased disclosure on carbon-related metrics allows investors to structurally factor in climate change considerations into the company or fund selection process for portfolios. For Investment & Portfolio Advisory clients in Wealth Management, we only recommend companies and issuers which meet our minimum ESG track-record and carbon exposure standards (see case studies).

Companies, issuers and funds with a 'very weak' ESG track record and 'very high' carbon exposure risk (see box 'What do we mean by carbon exposure and how do we measure it?') within their industry are systematically excluded from our investment universe.[5] With this we aim to enhance the transformation of each industrial sector towards better ESG standards and a low carbon footprint. Additionally, investors can follow with increasing precision how the carbon footprints of companies in their portfolio evolve over time, giving them an indication of how their portfolio is contributing to the fight against climate change. When selecting third-party funds, we prefer those with a credible ESG policy in place that is in line with our own principles.

Incorporating comprehensive ESG considerations when advising our clients is one of many efforts we're making across Rothschild & Co to contribute to a low carbon economy. For an overview of activities across the business, please see the yellow box on the right.

Case study: Linde

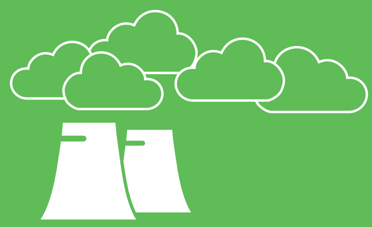
ESG track record: medium
Carbon exposure risk: high to mid

Linde is one of the world's largest industrial gas suppliers, operating in an industry that in general has poor environmental credentials. We like the company's approach to a low carbon transition because:

- Fundamentally, the products made by Linde allow its clients which are active in high carbon emission industries (e.g. refining) to operate more efficiently, producing fewer GHGs.
- The company has a carbon emissions reduction target of 35% and will double renewable energy purchases by 2028, showing concrete steps to reduce their carbon footprint.
- Linde is increasingly active in the production of hydrogen, a zero carbon alternative fuel for trains and cars.

What do we mean by carbon exposure and how do we measure it?

Companies create carbon emissions in three different ways: direct emissions that the company can control (scope 1), indirect emissions from purchased electricity (scope 2) and other indirect emissions (scope 3), which can be upstream from the supply chain, or downstream from the use of sold goods and services. Data is reported by companies or estimated by specialised data providers and measured in metric tons.



Rothschild & Co and the low carbon economy

Wealth & Asset Management: Both institutional and private client portfolio investment teams integrate ESG criteria into their investment processes and engage actively with portfolio holding companies to facilitate their transition to lower carbon emissions. Additionally, we have launched several climate change-focused strategies.

Merchant Banking: Pioneers in responsible investing in non-listed assets, our Private Equity and Private Debt teams integrate stringent ESG criteria in the investment process both at the analysis and selection stage of portfolios and during the monitoring phase of investments. Investment & Portfolio Advisory clients will have access to an in-house environment-focused Private Equity fund, in addition to a third-party renewable energy Private Equity fund.

Global Advisory: Over the past decade Rothschild & Co has worked on offshore wind projects worth more than $30 billion, representing over 25% of global installed offshore wind. Additionally, the division has a leading role in raising financing for renewable projects and making green projects investible. This is particularly the case in relation to offshore wind, which has become, and will remain, one of the key delivery agents for decarbonising the global electricity markets and achieving net zero.

[5] For the assessment of the ESG track record and carbon exposure risk we rely on MSCI ESG research.

Our Mosaique Views by asset class, region and sector

We stay overweight in equities, underweight on bonds, and neutral on cash and gold (the latter is now formally part of our strategic asset allocation). We have added some additional cyclical exposure by increasing US financials to overweight and cutting US communication services to neutral.

Key	–		Neutral		+
Material overweight	•	•	•	•	◉
Benchmark weight	•	•	◉	•	•
Material underweight	◉	•	•	•	•

Equities	•	•	•	◉	•
Fixed income	•	◉	•	•	•
Money market	•	•	◉	•	•
Gold	•	•	◉	•	•

Fixed income

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

Gold	•	•	◉	•	•

Currencies

USD	•	•	◉	•	•
EUR	•	•	◉	•	•
GBP	•	•	◉	•	•
ROW	•	•	◉	•	•

Equity regions

North America	•	•	•	◉	•
Eurozone	•	•	◉	•	•
UK	•	◉	•	•	•
Switzerland	•	◉	•	•	•
Japan	•	•	◉	•	•
Pacific (ex Japan)	•	◉	•	•	•
EM EMEA	•	•	◉	•	•
EM Asia	•	•	•	•	◉
EM Latin America	•	•	◉	•	•

Equity sectors

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 February 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

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