Rothschild & Co
Wealth Management

QUARTERLY LETTER | APRIL 2024

LongRun Equity

Investment philosophy

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." — Warren Buffett

We act as long-term business owners investing the wealth you have entrusted us with in a concentrated portfolio of high-quality companies.

LONG-TERM BUSINESS OWNERS

We want to own the highest-quality franchises for the long term. Little do we care about potential moves in short-term stock prices. What's crucial for us is a company's competitive position, a superior and sustainable business model and the ability to compound earnings. We want 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 but not shying away from high valuations. 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. We are determined to avoid this mistake.

WEALTH PRESERVATION

The avoidance of permanent capital loss has been in our DNA for centuries. We avoid businesses exposed to external factors outside of their own control, which can crush attractive returns. We think long and hard about whether a business will still have a license to operate in the long term and if there are environmental or social risks. Only robust companies in control of their own destiny 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.

COMPOUNDING

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.

DEEP RESEARCH

We spend most of our time reading annual reports, conducting and analysing expert calls and speaking with management teams and industry experts. We engage regularly with management, talk to industry insiders and conduct grass-roots research. Books on companies and their leaders, industry newsletters and trade publications as well as podcasts are hugely valuable and are often neglected sources of information.

Rothschild & Co Bank AG
Zollikerstrasse 1818034
Zurich Switzerland

+41 44 384 71 11

rothschildandco.com

Values: All data as at 31 March 2024.

Sources of charts and tables: Rothschild & Co and Bloomberg, unless otherwise stated. Past performance is not indicative of future performance and investments and the income from them can fall as well as rise. Strategy performance is shown in EUR, after all fees, in total return, combining income and capital growth. Returns may increase or decrease as a result of currency fluctuations. Please note the strategy's new management started on 01.08.2021.

Please ensure you read the Important Information section at the end of this document.

The avoidance of permanent capital loss has been in our DNA for centuries. We avoid businesses exposed to external factors outside of their own control, which can crush attractive returns.

”

Managing our clients' money is a privilege and a role we take very seriously. It is important to us that our clients know us and understand how we operate.

CAPITAL ALLOCATION

Managing our clients' money is a privilege and a role we take very seriously. It is important to us that our clients know us and understand how we operate. In a similar vein, we want to understand how the management of our businesses thinks, acts and is incentivised. Capital allocation is the most important job of management, and the great returns of a high-quality business can be diluted via poor mergers and acquisitions or empire building. We look for management teams with incentives centered on long-term value creation and that have "skin in the game". These are critical if they are to think and act like owners, rather than managers.

QUALITY OVER QUANTITY

We prefer to analyse and own fewer companies but understand them properly. We see little value in constant screening for 'cheap' companies and it distracts us from our focus on quality. With financial information abundant, no real edge can be gained based on quantitative information in our view. On the other hand, a deep understanding of business models takes time, but this is the only way we believe it is possible to generate superior long-term performance.

FOCUS

Focus is front and center of everything we do. We like focused businesses that are easy to manage and understand. We do not need our companies to diversify; we will take care of this ourselves. Our investment universe and portfolio is equally focused, with limited turnover. This allows us to compound our knowledge of our companies in a way that is similar to how we want them to compound their earnings and cash flows.

BOTTOM LINE

The combination of the above results in a high-quality portfolio of businesses. LongRun's main financial metrics remain strong, with cross-cycle sales growth of 8%, a 27% operating margin, an operating return on invested capital of 75% and a net debt to EBITDA leverage ratio of 0.3x. On a 3.0% free-cash-flow yield, we consider valuation attractive and expect annualised forward returns in the low double digits for LongRun Equity.

Notes from the manager

LongRun was up 8.1% in Q1 2024, lagging its benchmark

STRATEGY PERFORMANCE

The strategy was up 8.1% (in EUR, unhedged) in the first quarter, thus lagging its benchmark which gained 10.6%. Our underperformance was primarily driven by our investments in China exposed businesses, our healthcare companies, and our position in Adobe.

Annualised returns since inception of the strategy over eight years ago stand at 11.9% compared to 10.9% for global equities, resulting in an annual outperformance of 1.0 percentage points.

PERFORMANCE DRIVERS

The main driver of positive performance in Q1 was primarily ASML. However, the gains from ASML were more than offset by the aforementioned China exposed companies, many of our healthcare businesses, and our investment in Adobe.

ASML gained over 30%, the impact of which was compounded by its high weighting in the fund. The company reported solid Q4-23 results with particular strength in new orders which grew by almost 50%. This further strengthened its order book and we expect a strong recovery from 2025 onwards with substantial growth in sales and earnings.

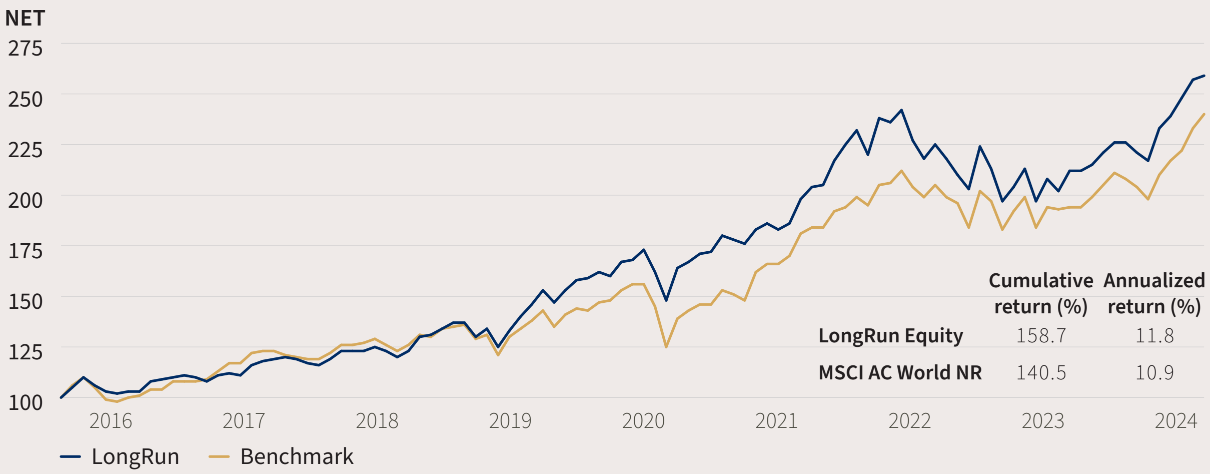
Other large holdings in the fund such as Alphabet, Linde, Mastercard, Microsoft or Relx all performed well and broadly in line with the overall market.

Once again, our Chinese and China exposed business were mostly struggling despite fairly decent growth locally. Alibaba (which we sold in Q1) fell in the high and Kone in the low single digits, despite solid Q4 results from both. L'Oréal also struggled, despite achieving Q4 organic growth of 7% which remains amongst the highest in consumer staples.

In healthcare, Idexx, Sonova and UnitedHealth all fell in the low to mid single digits, mostly due to company specific factors and solid earnings notwithstanding. Integrated med tech providers Danaher and Thermo Fisher performed better but also slightly lagged the benchmark

Adobe was the only stock shedding more than 10% in value, largely due to its financial guidance for the upcoming fiscal year which underwhelmed the market. This occurred despite solid earnings and a convincing investor day. With 10% sales growth expected this year and a strong position to capitalise on the opportunities from generative AI, we continue to find it a great business.

CUMULATIVE TRACK RECORD (EUR UNHEDGED, %)



	Cumulative return (%)	Annualized return (%)
LongRun Equity	158.7	11.8
MSCI AC World NR	140.5	10.9

ACTIVITY

In the first quarter, the fund made one new investment (Hermès, outlined in the main section of the letter) and two exits (Alibaba and Sonova).

Alibaba has been a position in the fund for pretty much exactly four years. This is well below our targeted holding period. The returns it has generated, or rather failed to generate, have naturally also been below our expectations. So why did we decide to sell the company now, at these very "cheap" valuations?

The reason is actually pretty simple. First, we have found businesses which offer higher quality, a better returns profile at less risk. This is valid for the sale of Sonova, too.

Second, and more importantly, we felt that Alibaba no longer fully fit our investment philosophy. We try to be long term owners of focused quality businesses firmly in control of their own destiny. Given the increasingly disperse businesses of Alibaba and the outsized impact of the Chinese Government on its operations, we no longer think it fully fitted our philosophy, thus prompting our exit.

Sonova is another very good, but not great business, in our view, and better opportunities available to us catalysed our exit. Sonova remains well positioned in the consolidated hearing aids industry. However, too many question marks have been increasing as of late, for example in the following areas: i) technological innovation, or lack thereof, ii) increasing vertical integration thus changing the business model, iii) limited pricing power and iv) management.

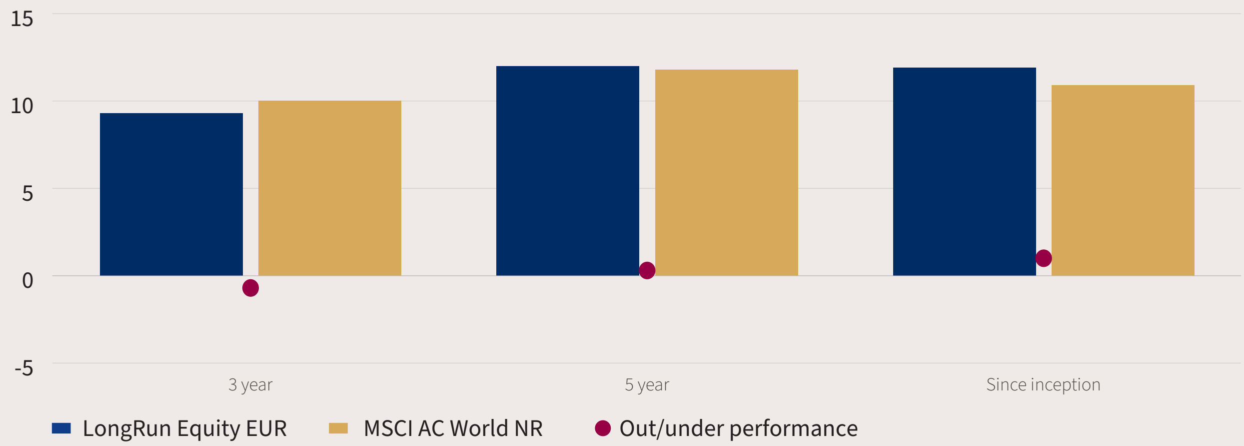
ANNUAL PERFORMANCE

	LONGRUN EQUITY (%)	MSCI AC WORLD (%)
2024	8.1	10.6
2023	21.2	18.1
2022	-18.5	-13.0
2021	30.4	27.5
2020	10.4	6.7
2019	34.8	28.9
2018	1.1	-4.9
2017	10.0	8.9
2016	5.8	11.1
2015	6.0	4.9

ANNUAL PERFORMANCE

	NET ASSET VALUE	QTD (%)	YTD (%)	INCEPTION TO DATE (%)
LongRun Equity EUR Unhedged	2,246	8.1	8.1	158.7
MSCI AC World NR		10.6	10.6	140.5
Out/under performance		**-2.5**	**-2.5**	**18.2**

ANNUALIZED PERFORMANCE (%)



Hermès: the beautiful business

Everything's different

In this section we want to outline the rationale behind the purchase of our most recent business, Hermès.

Hermès is a business pretty much all of you will know, mainly because its products are very expensive. But Hermès, both in terms of its equity and its products, is much more than just expensive. Rather, we think both its products as well as its business model are very much the epitome within their respective fields. Both are very different to anything else or, as Michael Porter called it, differentiated. Notably differentiated out of their own will, which is even more powerful. Or, as 5th generation family descendant and former chief executive Jean-Louis Dumas said: "I don't look at what others are doing, I might be influenced".

And that's why we think its equity is deservedly expensive, but not too expensive. At least not for long term investors such as us, who first and foremost look at a businesses' cash flows over the next decades, and not just the current earnings multiple. We believe cash flows will continue to compound at healthy rates for a very long time.

THERE'S FASHION, THERE'S LUXURY AND THERE'S HERMÈS

Hermès stands out uniquely among businesses, boasting a singular focus across brand, products, strategy, and ownership.

With descendants of its founder at the helm, it maintains near complete control over its entire value chain. Embracing a craftsmanship model marked by profound vertical integration, Hermès prioritises quality and sustainability, features firmly embedded in its nucleus since inception.

The strategy is anchored on the three pillars of i) creation, ii) craftmanship and iii) an exclusive distribution network. At its core are quality objects that are designed to last, meant to be passed on from one generation to the next and to be repaired.

On the creation side, creative freedom is paramount with the mission to create unique and original objects to elegantly satisfy the needs and desires of its customers. Creativity is at the core of the business model. Hermès employs a distinct "push" strategy, meaning it doesn't try to understand what customers want ("pull") but rather focuses on innovation and creation. The central tenet is that high-quality, innovative products will create demand on their own and that creators should create, rather than re-create things based on what customers might want.

In terms of manufacturing, Hermès operates under an artisanal, craftmanship model. Its over 10,000 craftspeople have deep "savoir faire" through their knowledge of materials and techniques (such as the famous "saddlestitch)" which are preserved and transmitted to newer workers. They

Hermès stands out uniquely among businesses, boasting a singular focus across brand, products, strategy, and ownership.

Hermès' highly differentiated business model is best exemplified by its most famous products, the Birkin and Kelly bags, both of which have a decade long, storied history.

"

typically have a job for life, if they want. Most manufacturing takes place in France in one of its 75 sites. As the name implies, most manufacturing happens manually. Take, for instance, the production of a bag, where a single craftsperson meticulously handcrafts each piece from the same animal, a process taking some 15–20 hours for a typical bag. Since qualified craftspeople are in short supply and training is time consuming, manufacturing can only be scaled slowly.

The linchpin of Hermès' distribution network are its stores, which are veritable "homes for Hermès objects". Customer proximity is given utmost importance in order to make the business model more relationship based, rather than transactional. Stores are to cater to the local clientele. In contrast to most other brands (or "chains") where the selection is becoming increasingly uniform, each of Hermès' stores offers a personalised selection of objects, thereby offering a distinct purchasing experience. It is upon the local store managers to accomplish this. They "pull" the products they want to offer during the semi-annual internal buying events, rather than having to sell what is centrally "pushed" down to them. In a similar vein, Hermès does not typically "push" its products to clients via fashion magazine advertisements or celebrity endorsements. Instead it wants customers to be naturally "pulled" to its products through their beauty, style and craftmanship. Authenticity comes above all.

PRODUCT PULL EXTRAORDINAIRE

Hermès' highly differentiated business model is best exemplified by its most famous products, the Birkin and Kelly bags, both of which have a decade long, storied history.

The design of the Kelly essentially goes all the way back to Hermès' much larger high-belt bags from the early 1900s which were used to carry riding equipment such as saddles or boots.

Manufacturing one takes days and is done by one artisan exclusively, using their hands. The manufacturer's soul almost continues to live on in the bag, even when one is finalised and sold. And if a bag is ever in need of repairs, it is quite likely that this will be done by the very craftsperson who made it in the first place – full circle.

The distribution of the Birkin and Kelly bags is similarly unique. They are hardly, at least directly, advertised. They are not even shown in stores. Yet almost everybody with even a fleeting interest in fashion will know about them.

Given high demand, these bags cannot just be bought by anybody, anytime, anywhere. Customers first need to prove their "worthiness" by purchasing other Hermès products and thus showing genuine interest in Hermès' craftmanship and brand.

These highly sought bags are actually sold well under their "market" value. This is evidenced by the sizeable premium for "pre-owned" bags readily available on the secondary market, at higher prices than new ones. This premium stems from their limited availability with waiting times of more than one year and their status as investment pieces.

Despite the high demand, Hermès is not greedy with a policy of increasing prices broadly in line with underlying inflation. This, too, underscores its long term thinking and gives it latent pricing power and a long runway for price increases.

Hermès products are highly differentiated in many ways. We think of its value proposition to customers as a unique combination of i) the highest quality, handmade items, ii) a unique, storied brand, iii) exclusivity, iv) a distinct shopping experience and v) impeccable service over the whole life cycle of a product. Some other brands we admire such as Apple, Ferrari, Louis Vuitton or Nike can replicate this in some ways, but never in all five of them.

THE HERMÈS EDGE

Hermès' strong customer loyalty and the limited availability of its products have had a profound impact on its business model: its customers have a relationship with it. The business has emancipated itself from a pure transactional business to a relationship based one.

The implications of this are both very profound and positive: it no longer has to fight for sales on a daily level. This is in sharp contrast to virtually all other luxury or consumer goods businesses which are subjugated to keeping their factories running efficiently and their sales smoothly – often through costly, both for brand and profit, discounts.

FINANCIAL FORTE

The results of this are also reflected in Hermès' outstanding financials, on pretty much each and every industry specific but also general financial metric.

Sales per own store stand at over EUR40m and at well over EUR130,000 per square meter. Over the last twenty years, same store sales have compounded at more than 10% and organic growth at 13%. In other words, the company has grown in a very sustainable, high quality way.

And Hermès also has not just "ridden" the popularity of its bags but rather sought to further balance its sales mix. Interestingly, the Leather Goods & Saddlery segment, while still dominant, has slightly diminished in its contribution to overall sales.

The same cannot be said about its geographical footprint with China/the Chinese significantly gaining in importance over the last decade. This is one of the main areas of potential concern for us, and one we monitor continually and carefully.

Margin and return wise, Hermès is also in a league of its own within consumer goods with operating margins above 40% and return on capital comfortably eclipsing 60%. Worth noting, these are just outcomes of its business model, but not specific goals or objectives. We like this thinking as it frees the company from the yoke of having to "hit" targets and allows it to focus on its business and the long term.

Hermès boasts a very strong balance sheet which it has also further fortified in the last years. This, too, allows the company to fully focus on its business, thereby putting it firmly in control of its own destiny. And it really is all about the business, as both operating and financial "leverage" are both absent in its business model – that's so 1837.

SKIN IN THE GAME, SOUL IN THE GAME

The final defining and differentiating feature of Hermès is its ownership structure. Since its foundation, the company has been controlled by the Hermès family and its descendants. While now listed for over 30 years, they remain in firm control via their holding company H-51 which controls over 50% of the equity. Almost all employees are shareholders too.

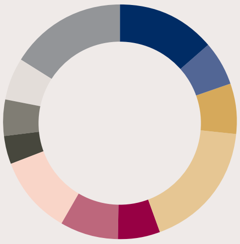
On top of the financial control, the family (as well as many of Hermès' employees) remain very much engaged on the business side with three out of the eleven members of the Executive Committee, including Executive Chairman Axel Dumas, directly involved. The family quite literally has not just their skin but also their soul in the game, for almost 200 years, and thus are perfectly aligned with what we as long term shareholders are looking for – "all in" commitment.

Hermès, never change.

Business owner's portfolio

A deeper look into the strategy and its companies

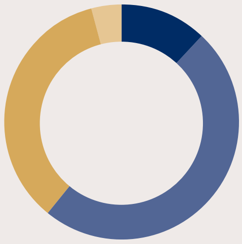
SALES BY BUSINESS (%)



Software	14
Online commerce and advertising	6
Payments	7
Professional services	18
Capital goods	6
Fast moving consumer goods	8
Medtech	11
Other healthcare	4
Luxury	5
Semi-conductors	6
Other	16

By weight in portfolio, excluding cash

DEGREE OF PRICING POWER* (%)

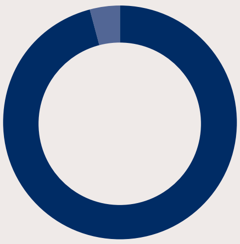


High	12
Medium	49
Low	35
None	4

*In the investable universe, around 5% of companies have medium or high pricing power.

By weight in portfolio, excluding cash

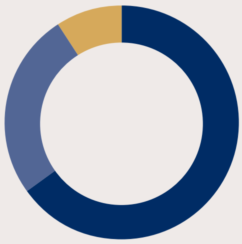
STRENGTH OF COMPETITIVE ADVANTAGE (%)



High	96
Medium	4

By weight in portfolio, excluding cash

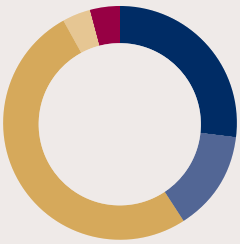
STRENGTH OF SWITCHING COSTS (%)



High	65
Medium	26
None	9

By weight in portfolio, excluding cash

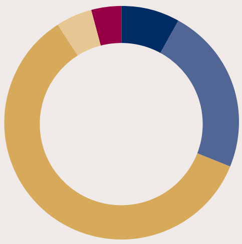
ESG RATING BREAKDOWN (%)



Very strong	27
Strong	14
Medium	51
Weak	4
N/a	4

By weight in portfolio, excluding cash

CARBON EXPOSURE RISK BREAKDOWN (%)



Negative/mitigating	8
Neutral	23
Low	59
Mid to high	5
N/a	4

By weight in portfolio, excluding cash

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.

To follow a wide set of timely and insightful publications, podcasts and videos please visit our Wealth Insights www.rothschildandco.com/insights

Important information

This document is confidential and produced by Rothschild & Co Bank AG ("Rothschild & Co") for information and marketing purposes only and for the sole use of the recipient ("you" or "Recipient"). Save as specifically agreed in writing with Rothschild & Co, this document must not be copied, reproduced, distributed or passed, in whole or part, to any other person. This document does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product or to enter into transactions of any kind. Nothing in this document constitutes legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to an individual's circumstances. The information in this document therefore neither takes into account the specific or future investment goals nor the tax or financial situation or individual needs of the Recipient. Interested persons should consult a qualified expert before making investment decisions.

The value of investments, and the income from them, may fall as well as rise, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk: performance aspirations are not and cannot be guaranteed. Forward-looking statements, e.g. statements including terms like "believe", "assume", "expect" or similar expressions are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, financial situation, development or performance of the issuer or the instrument and those explicitly or implicitly presumed in these statements, if any. Against the background of these uncertainties you should not rely on forward-looking statements. Rothschild & Co assumes no responsibility to update forward-looking statements or to adapt them to future events or developments. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. Income may be produced at the expense of capital returns. The preservation of the invested capital cannot be guaranteed. Should an existing client of Rothschild & Co change his/her outlook concerning his/her investment objectives and/or his/her risk and return tolerance(s), he/she shall contact his/her Rothschild & Co client adviser. Additional information can also be obtained from the brochure "Risks Involved in Trading Financial Instruments" issued by the Swiss Bankers Association (www.swissbanking.ch/en/downloads).

Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co concerning this document, e.g. in relation to the fairness, accuracy or completeness of it or the information forming the basis of it or for any reliance placed on it by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Rothschild & Co excludes all liability for losses or damages of any kind (both direct and indirect as well as consequential damages), which arise from the use of this document. The contents of this document may be changed at any time due to changed circumstances, whereby Rothschild & Co is under no obligation to update once published information.

This document is distributed by Rothschild & Co in Switzerland and abroad. Law or other regulation may restrict the distribution of this document in certain jurisdictions. The contents of this document are not directed or meant for persons subject to a jurisdiction that prohibits the distribution of this document or the investment strategies referred to therein. Accordingly, the Recipient of this document must inform him/herself about any possible restrictions and comply with all applicable legal and regulatory requirements. For the avoidance of doubt, neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person (including but not limited to US citizens and US residents). The term "United States" encompasses the United States of America, all of its constituent states, its territories and possessions, and all areas under its sovereign jurisdiction.

Rothschild & Co Bank AG. Registered office: Zollikerstrasse 181, 8008 Zurich, Switzerland. Authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA which has its office at Laupenstrasse 27 in 3003 Bern, Switzerland (www.finma.ch).