



# Global Franchise Annual Review 2025: Navigating an expanding bull market

## Market background

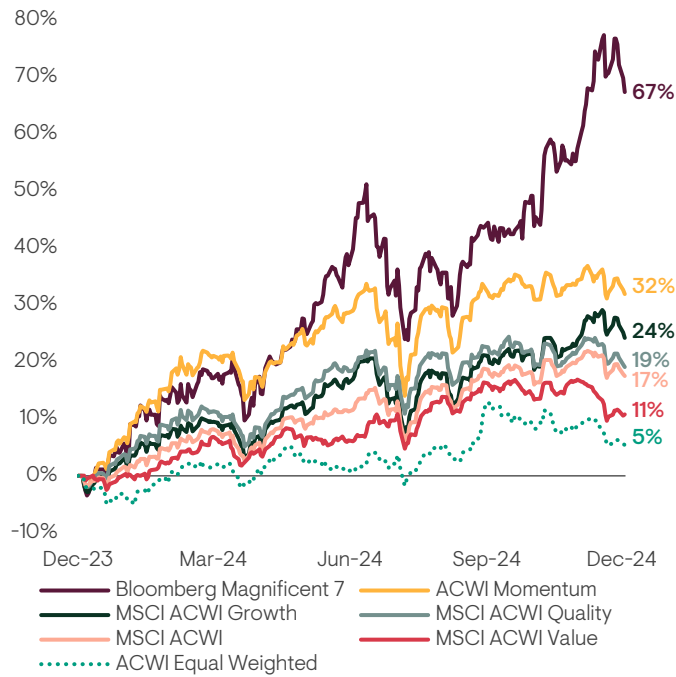
Global equity markets delivered another year of strong returns in 2025, with the MSCI ACWI up 22.3% in US Dollars. Whereas 2024 relied on a small cohort of US mega-cap stocks, market leadership expanded in 2025, with ex-US regions contributing a larger share of global equity returns amidst US dollar weakness, and the equal-weighted MSCI ACWI finishing the year ahead of its equivalent market-capitalisation-weighted index. Momentum, growth and risk factors were again heavily rewarded, further supported this year by cyclical value parts of the market such as banks and defence shares, notably in Europe, which related on the back of both monetary and fiscal stimulus measures.

Investor sentiment oscillated sharply over the course of the year as markets reacted to shifting political dynamics, evolving trade policy, and ongoing debate around the sustainability of AI-driven capex and growth. Earlier in the year, the announcement of new US tariff measures and renewed geopolitical uncertainty drove a pronounced risk-off move, during which defensively positioned strategies and quality businesses with resilient earnings profiles provided meaningful downside protection. As the year progressed and the severity of tariffs was watered down, markets quickly reverted to rewarding perceived growth certainty, particularly in AI infrastructure, semiconductors and ex-US cyclical value shares.

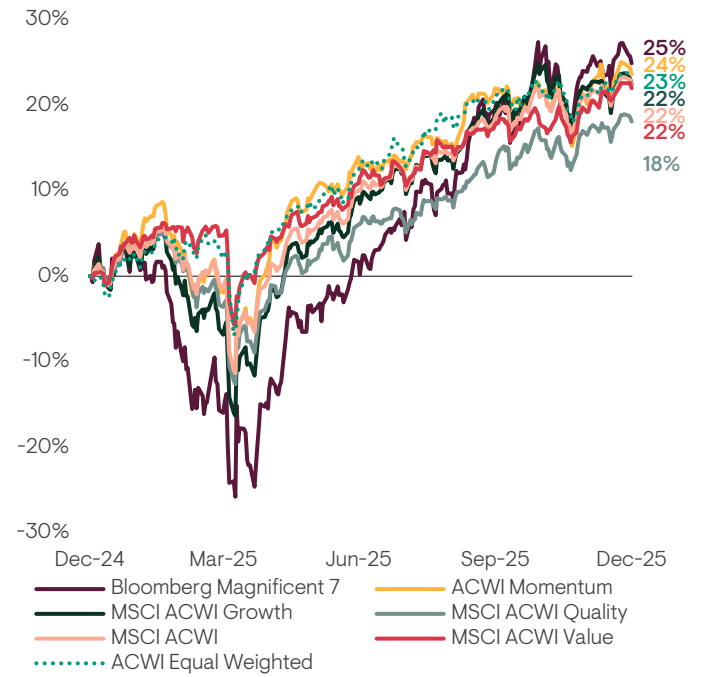
This dynamic created a challenging backdrop for fundamental-focused resilient quality strategies. While underlying earnings delivery across many high-quality businesses remained robust, share price performance was increasingly driven by momentum and sentiment-driven changes to valuation multiples rather than observable fundamentals. As a result, valuation dispersion widened further and concentration levels continued to rise from what were already multi-decade highs.

Figure 1: Style performance comparison

2024 total returns (USD) – style comparison



2025 total returns (USD) – style comparison



Past performance does not predict future returns; losses may be made.

Source: Ninety One, Bloomberg, 31 December 2025.

Returns are in USD, shown net of all trading expenses. Income is reinvested.

For further information on indices, please see the Important information section.

Figure 2: concentration and valuation risk

Top 10 weighting of S&P 500 & MSCI ACWI (last 20 years)



MSCI ACWI Forward P/E since Global Franchise Strategy inception



Source: Ninety One, Bloomberg, as at 31 December 2025.

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## Global Franchise performance and attribution

The Global Franchise Strategy delivered strong absolute returns of 17.3%, net of fees, in 2025, but lagged the benchmark on a relative basis. Underperformance reflected the challenges faced by a resilient quality approach in a heavily risk-on market. Nonetheless, a meaningful upside capture of 90% (gross of fees) was in line with the Strategy's long-term track record and above average compared to historical periods of strong equity market performance when 12-month returns for the MSCI ACWI have exceeded 10%.

Encouragingly, through the year the Strategy not only provided a key reminder of its defensive attributes but also reaffirmed its ability to participate in a strongly rising market. Franchise businesses provided better protection through the DeepSeek and tariff-driven market volatility at the start of the year and outperformed again at the end of the year as some froth came out of the AI infrastructure trade, the market became more discerning over AI capex levels and associated real-world constraints, and fundamentals came to the fore again.

**Figure 3: Global Franchise 2025 cumulative total returns (USD)**



Past performance does not predict future returns; losses may be made. Clients' actual separate managed accounts may differ.

Source: Ninety One, 31 December 2025. Source: Ninety One, 31 December 2025. Based on a representative discretionary portfolio with no client money invested that we believe closely reflects current portfolio management style for the strategy. Net performance is net of 0.75% (actual fees will vary), in USD. Income is reinvested. The performance series is not GIPS compliant Performance start: 01 May 2007. Strategy: Global Franchise. Benchmark: MSCI AC World NDR (pre Oct-11, MSCI World NDR). Indices are shown for illustrative purposes only.

The main detractor from relative returns was our quality-focused positioning in the Technology and Financials sectors. Within Technology, our quality approach favours capital-light software companies with highly visible, resilient and recurring subscription-based revenues over more capital-intensive and cyclical hardware and semiconductor companies. Positive AI-related market sentiment favoured the latter, whereas many established software companies were increasingly perceived to be AI losers, vulnerable to disruption from AI advancements and adoption. Similarly in the Financials sector, data services businesses were also punished as perceived AI losers, while banks (not held in the Global Franchise portfolio) were bid up significantly, together with industrials, on the back of improving economic sentiment and stimulus support.

Stock-level attribution also reflected the strength of AI sentiment. AI-driven outperformers in our portfolio included ASML<sup>1</sup> and Alphabet. In both cases, we believed valuations at the start of the year were overly discounting the inherent

<sup>1</sup> No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

This is not a buy, sell or hold recommendation for any particular security. For further information on specific portfolio names, please see the Important information section.

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quality opportunity and were encouraged to see these companies reaffirm their technological leadership and dominant industry positions against an improving market and regulatory backdrop. Importantly, positive performance drivers extended beyond the AI trade and were also diversified across geographies and sectors. Other key contributors included Netease<sup>2</sup> (China, Communication Services), Philip Morris International (US, Consumer Staples), Roche (Switzerland, Health Care) and a new position in LVMH (France, Consumer Discretionary), initiated at end of June cyclical lows.

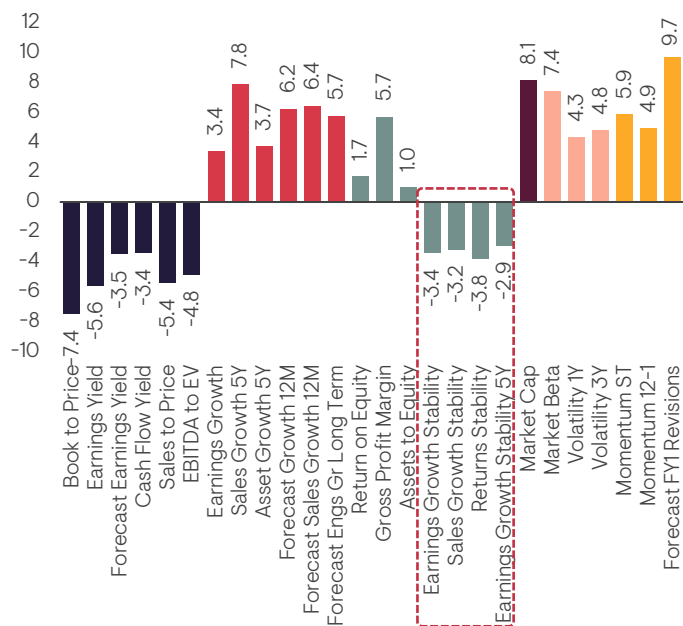
While AI trends supported our technology infrastructure positioning in 2025, the same trends negatively impacted some of our software and information services holdings, in particular FactSet and LSEG. The narrative took hold that AI-related productivity and efficiency gains would lead to a reduction in corporate workforces, negatively impacting 'per-seat' revenue models for software and services businesses, and that AI advancements more generally would drive increased competition that would disrupt and potentially displace incumbent providers. This narrative caused a compression in valuation multiples for the above stocks. However, fundamentals remained robust and both companies still grew their earnings in 2025. We believe mission-critical software and information services businesses with brand and scale/distribution advantages, proximity to the customer, high switching costs from entrenched positions and unique/proprietary datasets, should be well protected from perceived AI threats.

## Contextualising the performance

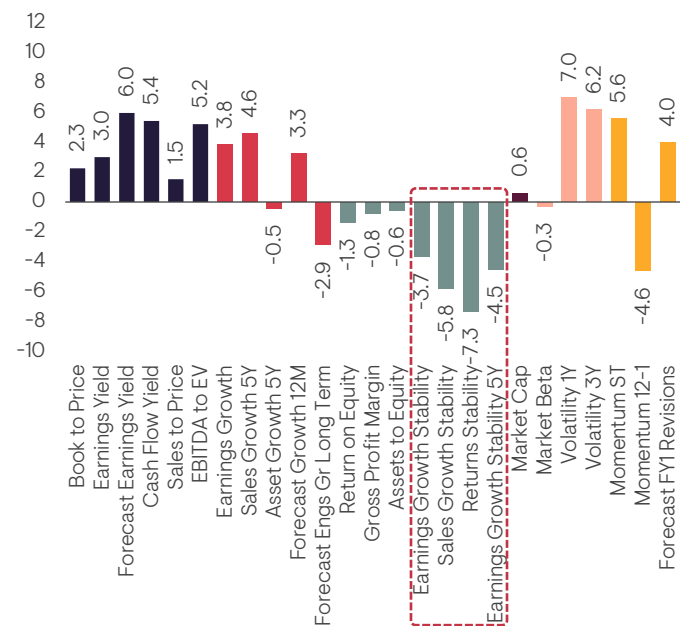
Defensive quality factors – stable revenue, earnings and profitability and strong balance sheets – remained firmly out-of-favour in a risk-on market. This can clearly be seen in the following chart breaking down MSCI ACWI returns into factor contributions over the last two years.

Figure 4: MSCI ACWI factor relative returns

### Calendar year 2024\*



### Calendar year 2025\*



■ Value ■ Growth ■ Quality ■ Market Cap ■ Volatility ■ Momentum

Past performance does not predict future returns; losses may be made. Clients' actual separate managed accounts may differ.

Non-Cyclicals – IT, Healthcare, Consumer Staples, Communication services.

Cyclicals – Financials, Consumer discretionary, Industrials, Energy, Materials, Utilities, Real estate

Based on weighted average for MSCI ACWI EX US sector index TSR in USD

Source: Ninety One, Bloomberg, 31 December 2025, Earnings based on Blended 12mth forward EPS. Valuation based on Blended 12mth forward PE, index to September 2022.

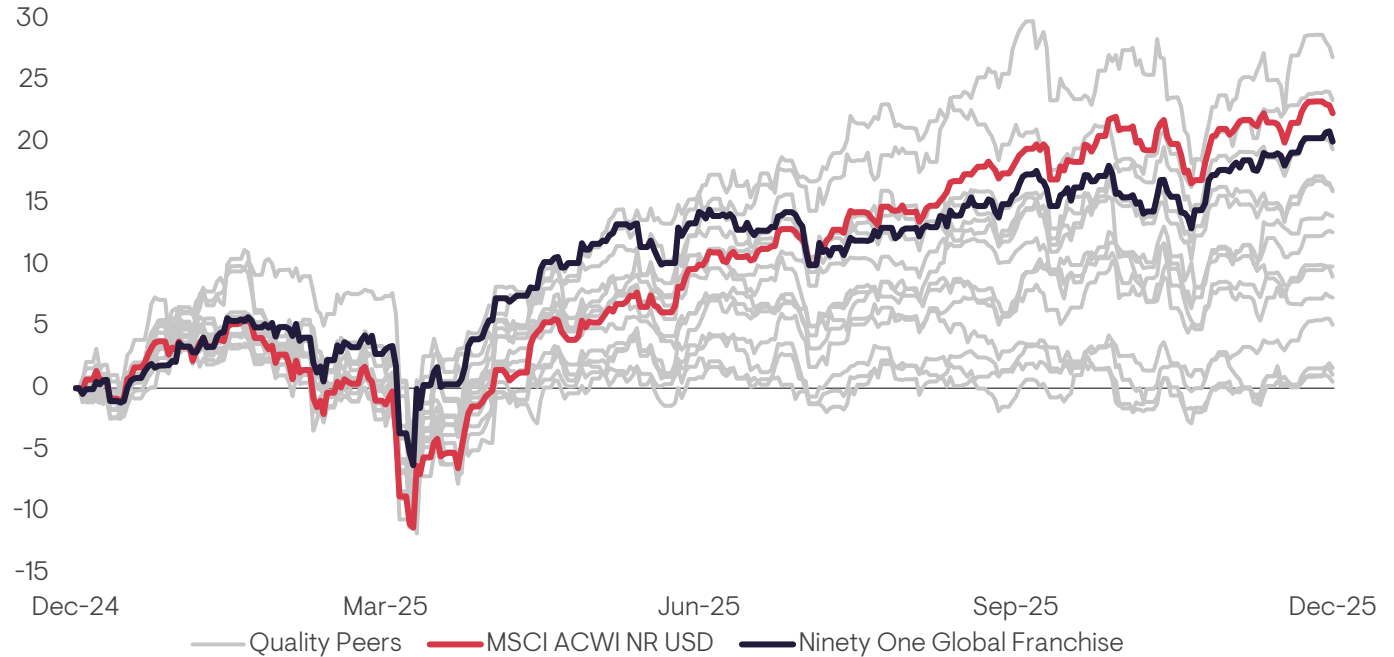
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Factor contributions by themselves do not tell the whole story, however, and belie an extremely wide dispersion of returns among global quality equity managers in 2025. This dispersion underscored that 2025 was not simply a test of “quality” as a factor, but of how that quality was defined and implemented in portfolio construction. The performance chart below shows the full extent of the performance dispersion amongst quality managers\* in what has often been accused of being a crowded space.

**Figure 5: 2025 cumulative returns (USD, net of fees) across global quality equity managers**



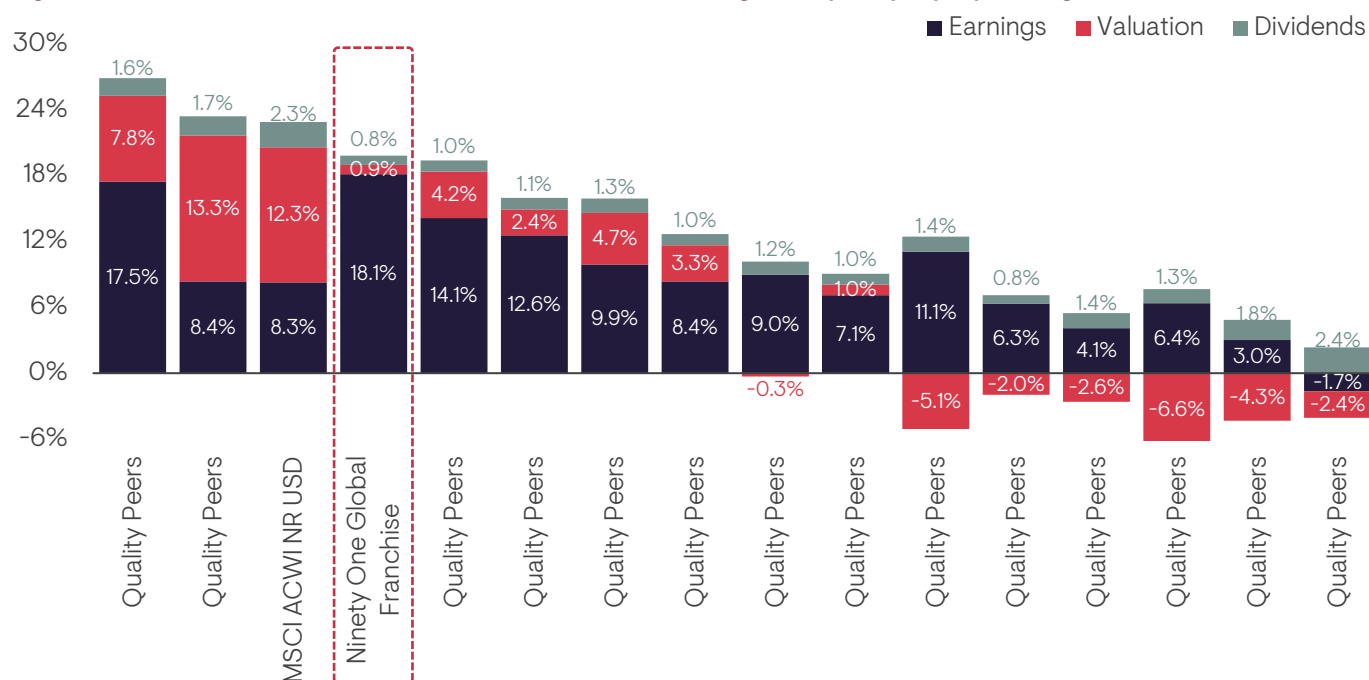
Past performance does not predict future returns; losses may be made.

Source: Ninety One, Morningstar Direct, Performance is gross of fees in USD, 31 December 2025.

\*Managers shown are the 15 largest by AUM in the eVestment All Global Equity Universe, where Equity Style Emphasis is tagged as Quality, or Quality/Franchise appears in the strategy name.

There was significant dispersion in the component drivers of those returns as well (earnings, valuation and dividends). The huge range of valuation outcomes, ranging from a de-rating of -7% to a re-rating of +13%, showed just how significant an influence sentiment had on relative valuation multiples. Encouragingly for Global Franchise, performance was neither heavily impacted nor heavily reliant on changes in valuation multiples; instead, it was the continued compounding of earnings in the portfolio that did the heavy lifting in delivering peer group-leading performance.

Figure 6: 2025 cumulative returns (USD, net of fees) across global quality equity managers



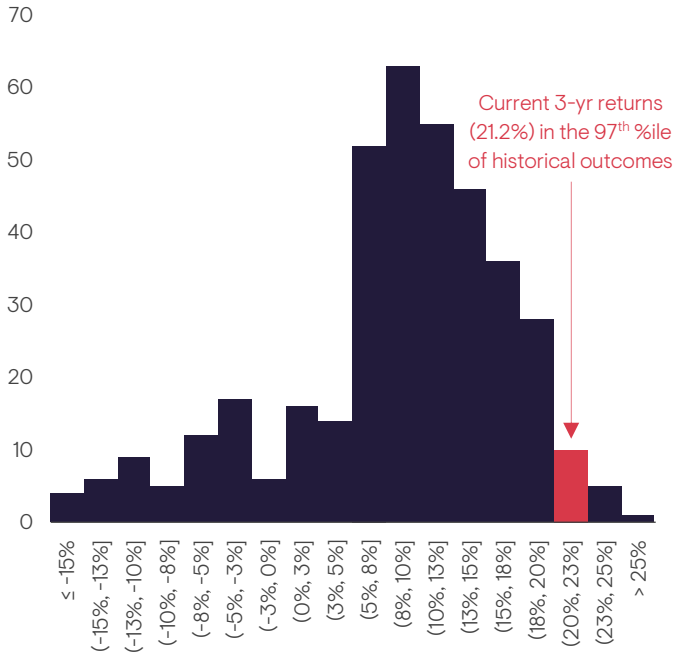
Past performance does not predict future returns; losses may be made. Clients' actual separate managed accounts may differ.

Source: Ninety One, Morningstar Direct, Performance is gross of fees in USD, 31 December 2025. Performance results may be provided with additional disclosures available on our systems and other important considerations such as fees may be applicable. Not for general distribution. Managers shown are the 15 largest by AUM in the eVestment All Global Equity Universe, where Equity Style Emphasis is tagged as Quality, or Quality/Franchise appears in the strategy name.

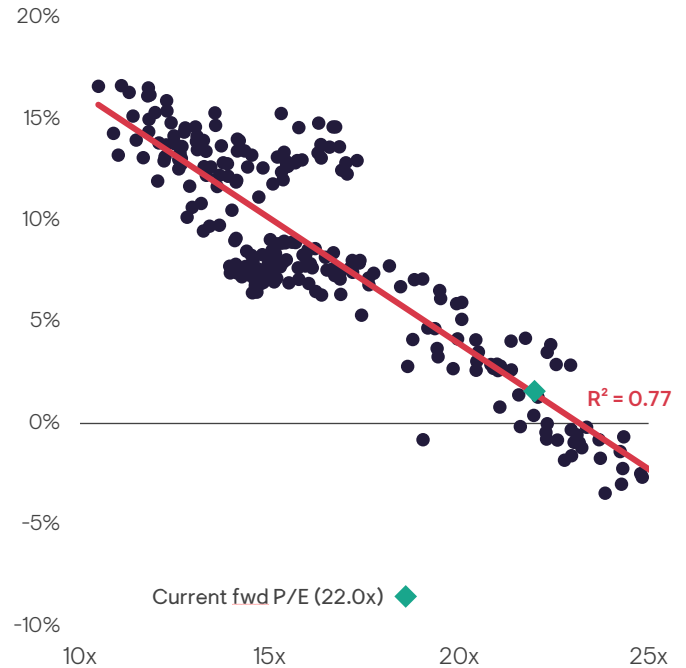
Risks remain elevated at the market level. The latest 3-yr returns for the MSCI ACWI are in the 97th percentile of historical outcomes since the index launched in 1990 and market valuations are as expensive as we've seen them outside of Covid extremes (the forward P/E on the MSCI ACWI is now two standard deviations above average since the launch of the Global Franchise Strategy in 2007). While there is little-to-no historical correlation between starting equity valuations and subsequent short-term returns, correlations are much stronger over longer time horizons (referencing the longer S&P 500 data series), and current valuations suggest only low-single digit annualised nominal returns from the global equity market on a 10-year view. Recency bias makes it easy to forget the truism that markets go down as well as up, but this has been the case 27% of the time over rolling 12-month periods since the inception of Global Franchise in 2007. It is a challenging setup now from which to deliver attractive medium to long-term global equity market returns by simply following a passive approach.

Figure 7: Global equity elevated market levels and valuation

**Distribution of rolling 3-yr returns (ACWI, annualised, USD, since 1990)**



**Forward P/E and subsequent 10-yr returns (S&P 500, USD, last 30 yrs)**



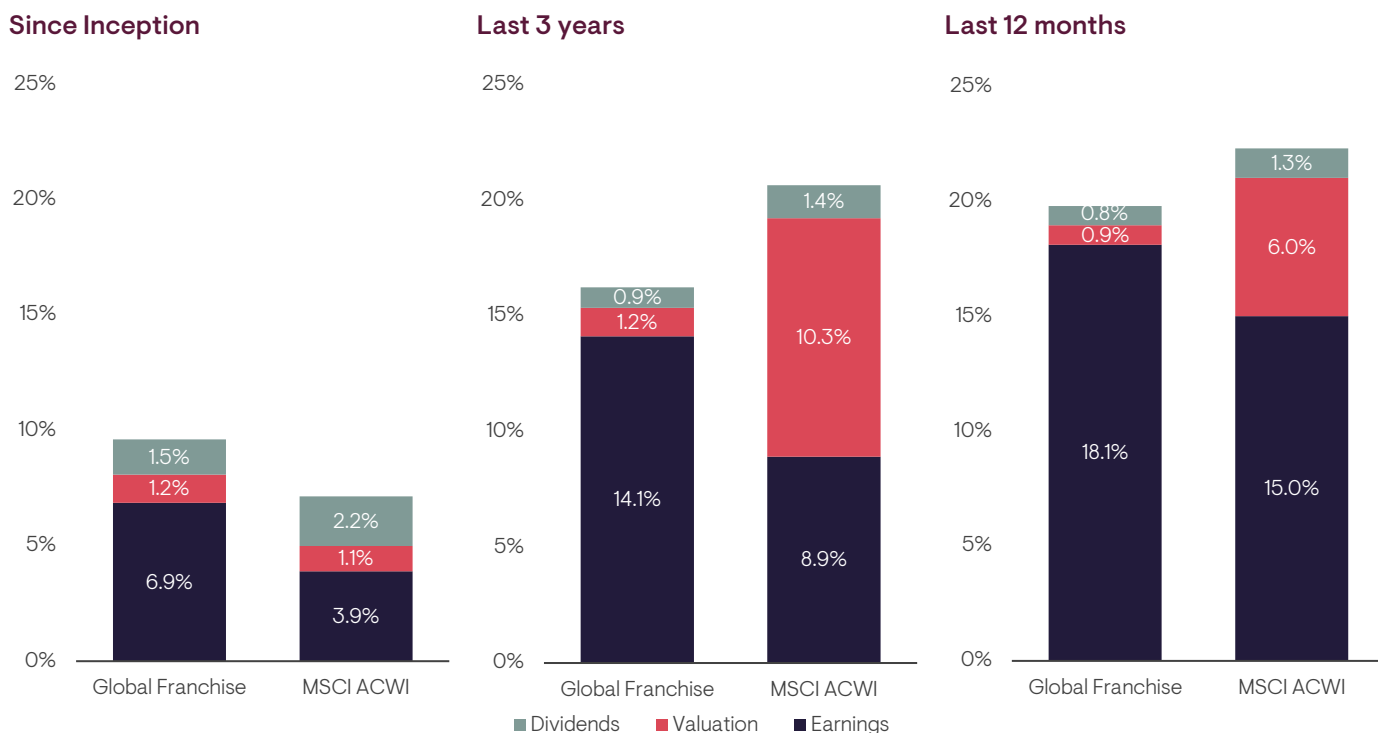
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Source: Ninety One, Bloomberg, 31 December 2025

The relative merits of the Global Franchise Strategy stand out against a market that appears increasingly over-valued and over-extended. Aggregate earnings from the portfolio's constituent companies grew 18% in 2025, well ahead of historical averages and ahead of the market, yet the Strategy has derated significantly on a market-relative basis. The forward P/E valuation premium relative to the MSCI ACWI peaked at +48% in July 2022 and has fallen to just +17% in December 2025, as low as it has been in a decade.

The market-relative derating has been the single largest contributing factor to Global Franchise's underperformance in 2025, explaining more than the total underperformance and thereby discounting the stronger and more resilient compounding of earnings that Global Franchise has delivered over the last year and longer term. This combination of resilient earnings growth and attractive relative valuation creates a compelling forward-looking opportunity for the Strategy.

Figure 8: Decomposition of total shareholder returns (31 December 2025)



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Source: Ninety One, FactSet, Bloomberg, 31 December 2025, inception April 2007.

TSR is derived from portfolio constituents through time and is based on the weighted average aggregation of EPS growth and dividend yield. Gross performance is used to derive the residual rating change.

## Looking ahead

We believe the investment landscape remains finely balanced. The macro picture has improved but market concentration and valuation risk are elevated, and expectations embedded in the prices of AI infrastructure and cyclical growth stocks leave little margin for error. History suggests that capital expenditure cycles rarely progress in a straight line, market prices can peak well ahead of peaks in capex and periods of digestion or disappointment can emerge quickly when expectations run ahead of reality.

At the same time, many high-quality businesses with durable competitive advantages, recurring revenues and strong free cash flow generation are trading at valuations that do not reflect their long-term compounding potential. The widespread de-rating of software, information services and select consumer franchises has created a growing opportunity set for disciplined, fundamental quality investors.

We remain confident that the core principles underpinning the Global Franchise strategy – a focus on enduring business quality, balance sheet strength, pricing power and sustainable cash generation – are as relevant today as they have ever been. While the Strategy may lag in short bursts of momentum-driven exuberance, we believe it is well positioned to deliver strong and resilient outcomes across a full market cycle, particularly if market leadership continues to broaden and fundamentals reassert themselves as the primary driver of returns.

### Global Franchise performance history

	1-year	5-years p.a.	10-years p.a.	Since inception
Composite (net)	17.3	8.4	10.6	8.8
MSCI AC World NR	22.3	11.2	11.7	7.1
Relative performance	-5.0	-2.8	-1.1	1.7

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Source: Ninety One, 31 December 2025. Based on a representative discretionary portfolio with no client money invested that we believe closely reflects current portfolio management style for the strategy. Net performance is net of 0.75% (actual fees will vary), in USD. Income is reinvested. The performance series is not GIPS compliant. Performance prior to 1 April 2020 is of the GIPS composite performance track record of the investment strategy. GIPS Composite Description – Global equity mandate focused on shares with strong brands.

Composite inception date is 1 May 2007, returns of less than a year are not annualised.

Comparison Index against the MSCI AC World index since 01 October 2011; previously the MSCI World index, aims to outperform the Comparison index over a full market cycle. Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

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