Ninety One

Investing for a world of change

Global Franchise Annual Review 2024

Navigating a narrow bull market

January 2025

Market background

Global equity markets delivered another strong year of performance in 2024, driven by a confluence of factors, including advancements in AI, monetary policy stability and positive investor sentiment.

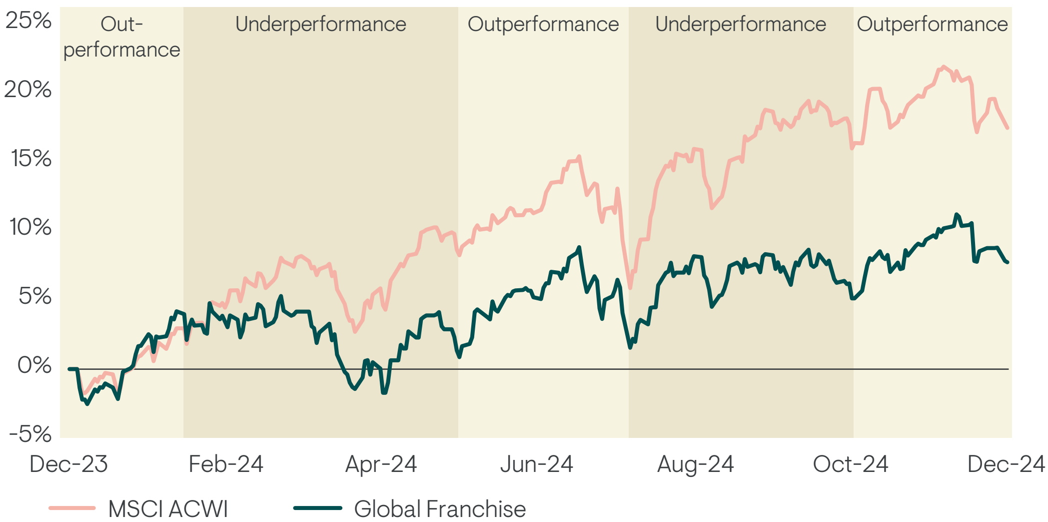
Performance was concentrated in the US, with the S&P 500 reaching record highs and surpassing the 6,000 mark for the first time in December, before falling back slightly at the end of the year. It was the fourth 20%+ year in the last six for the S&P 500. Record-breaking capital inflows into equities reflected heightened optimism, as investors moved aggressively into risk assets, particularly in technology and financial sectors and further concentrated in the 'Magnificent Seven' tech giants in the US, which now represent over a third of the S&P 500 index. Investor confidence was also bolstered by the Federal Reserve's successful management of inflation without inducing a recession and the re-election of former President Donald Trump in November on a mandate of tax cuts and deregulation.

Global Franchise performance and headline attribution

Despite delivering robust absolute returns in line with the portfolio's long-term track record, the calendar year 2024 presented a challenging environment on a relative basis for the more defensively positioned Global Franchise portfolio. The Fund delivered an absolute return of 7.8% versus 17.5% for the MSCI AC World index in US dollars, net of fees.

Relative performance suffered during periods of market strength between February and May and between August and October but was positive during weaker and more volatile market conditions between May and July and at the end of the year.

Figure 1: Global Franchise 2024 cumulative total returns (USD)



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

Source: Ninety One, 31 December 2024. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD. Benchmark: MSCI AC World NDR (pre Oct-11, MSCI World NDR). Indices are shown for illustrative purposes only.

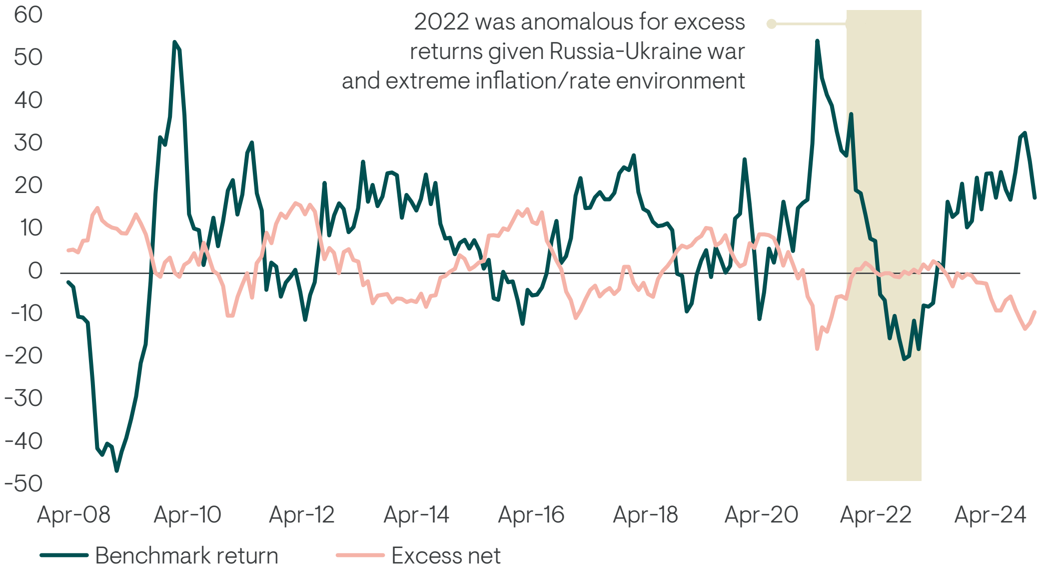
In aggregate, sector allocation contributed positively to relative returns as the portfolio's overweight positioning in the technology sector and underweight positioning in energy, materials and real estate outweighed the negative impact of not owning banks and the portfolio's overweight position in the more defensive consumer staples sector.

However, in spite of strong performance from high-conviction portfolio holdings such as Booking Holdings and Visa, as well as new positions in 2024 such as Motorola Solutions, LSEG and Edwards Lifesciences, stock selection detracted from relative returns overall. Not owning Nvidia had the largest negative impact by far, as the stock trebled in size in 2024 to a market cap of over US$3.5 trillion by early November, before falling back slightly at the end of the year. Not owning other Magnificent Seven names – Meta, Tesla, Amazon and Apple – and other semiconductor AI infrastructure names such as Broadcom, also detracted from relative returns. In terms of stocks held, it was our more defensive positioning in stocks such as Nestlé, Beiersdorf, ICON and Verisign, as well as semiconductor holdings ASML and Samsung Electronics, which detracted most from relative returns.

Unpacking the attribution

The portfolio's underperformance in 2024 was broadly in line with historical norms in risk-on market environments when global equity index rolling 12-month performance has peaked at double digit levels. As shown in Figure 2 below, a similar pattern can be observed in equally strong market conditions in years 2011, 2014, 2017 and 2021. It was the shaded period in 2022 that was anomalous for excess returns given the Russia-Ukraine war and the extreme environment for rates and inflation.

Figure 2: Global Franchise rolling 12 month returns (USD)



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

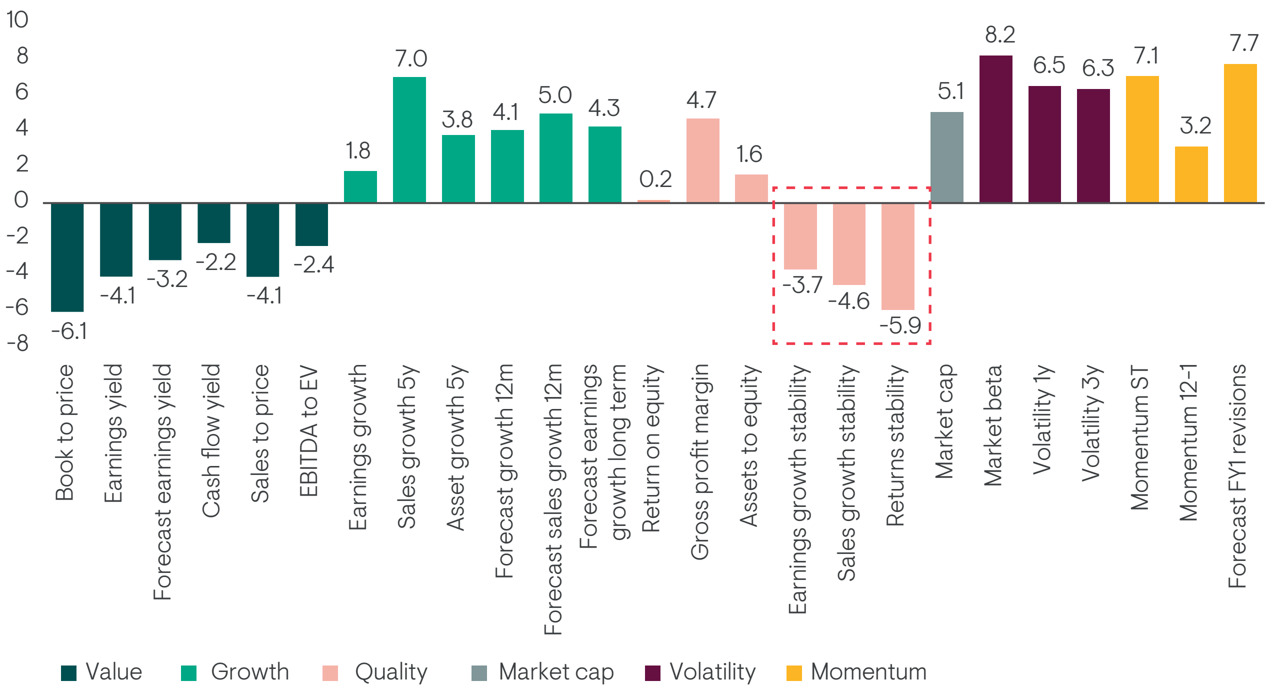
Source: Ninety One, as at 31 December 2024. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD. Comparison Index against the MSCI AC World index since 1 October 2011; previously the MSCI World index. Indices are unmanaged and do not include fees. One cannot invest directly in an index.

The Fund's purist Quality approach and resulting underweight positioning in mega-cap tech and cyclical sectors clashed with the prevailing market trends as sentiment and momentum drove an extraordinarily narrow bull market ever higher and further away from broad-based fundamentals.

As we entered 2024, investors were concerned about an impending recession, which ultimately never materialised. This had the twin effect of leading to a shallower than expected pace of interest rate cuts, impacting Global Franchise's longer duration portfolio, and less need for the defensive attributes of quality companies – primarily stable, recurring revenues and lower leverage (both operational and financial).

The extent to which stable, resilient quality attributes have been out of favour can be seen in Figure 3, which breaks down the factor relative returns of the MSCI ACWI over the 12-month period to end November. Returns stability was one of the worst performing factors over the period, whilst a variety of growth, market cap size, beta, volatility and momentum factors were all handsomely rewarded.

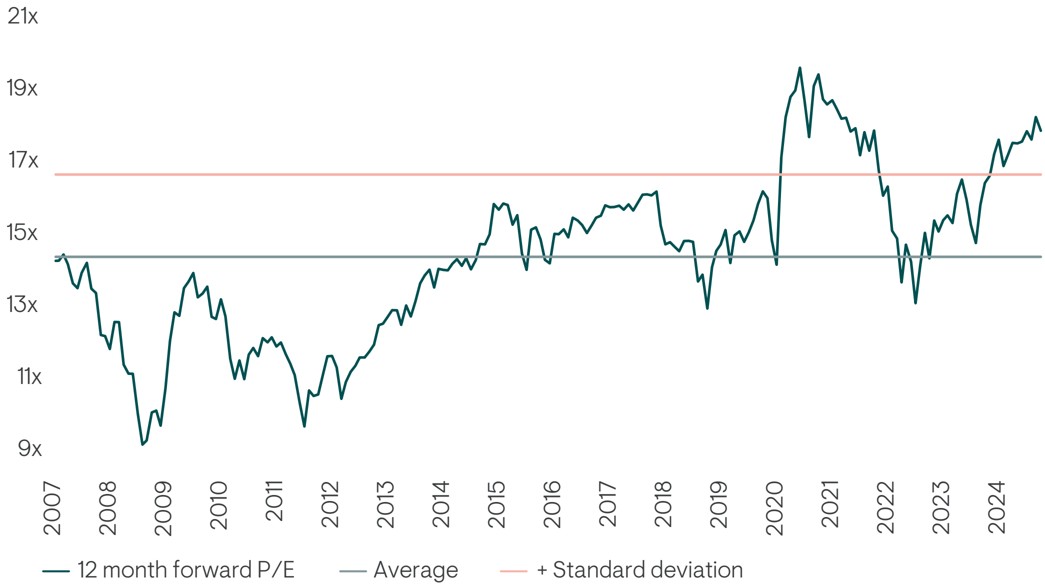
Figure 3: MSCI ACWI factor relative returns, 1 year to 30 November 2024*



Past performance does not predict future returns; losses may be made.
Source: Ninety One, Style Analytics, 30 November 2024. *Average relative performance vs. MSCI ACWI of the top 50% of companies in each factor ranking. For further information on indices, please see the Important information section.

As is typical in a short-term, sentiment-driven risk-on market, valuations have decoupled from near-term observable fundamentals. The forward P/E ratio on the MSCI ACWI is now as high as it has been, outside of COVID pandemic extremes, since the launch of the Global Franchise portfolio in 2007.

Figure 4: MSCI ACWI Forward P/E since Global Franchise inception

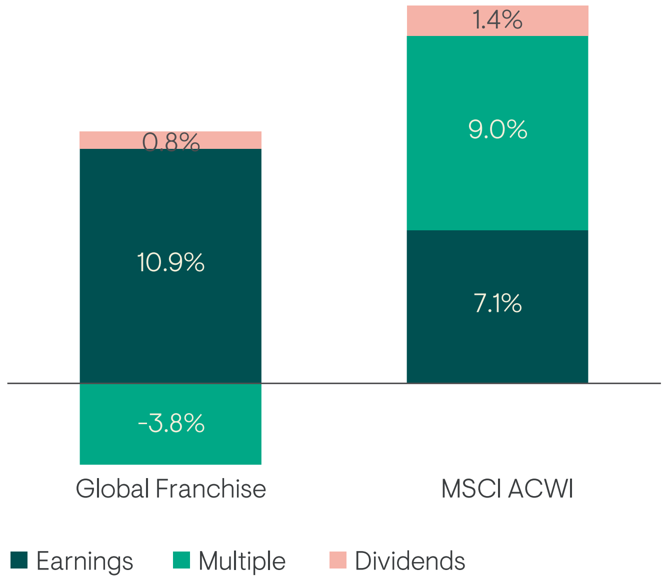


Source: Ninety One, FactSet, as at 31 December 2024. Portfolio inception: May 2007.

Deconstructing the total shareholder return of Global Franchise over the calendar year versus that of the index reveals a stark picture. Easing concerns over a recession combined with AI-fueled earnings growth, most notably in the semiconductor industry, has caused the market to rerate significantly. By contrast, the Global Franchise portfolio has derated over the same period, reflecting currently reduced appeal for resilience and stability.

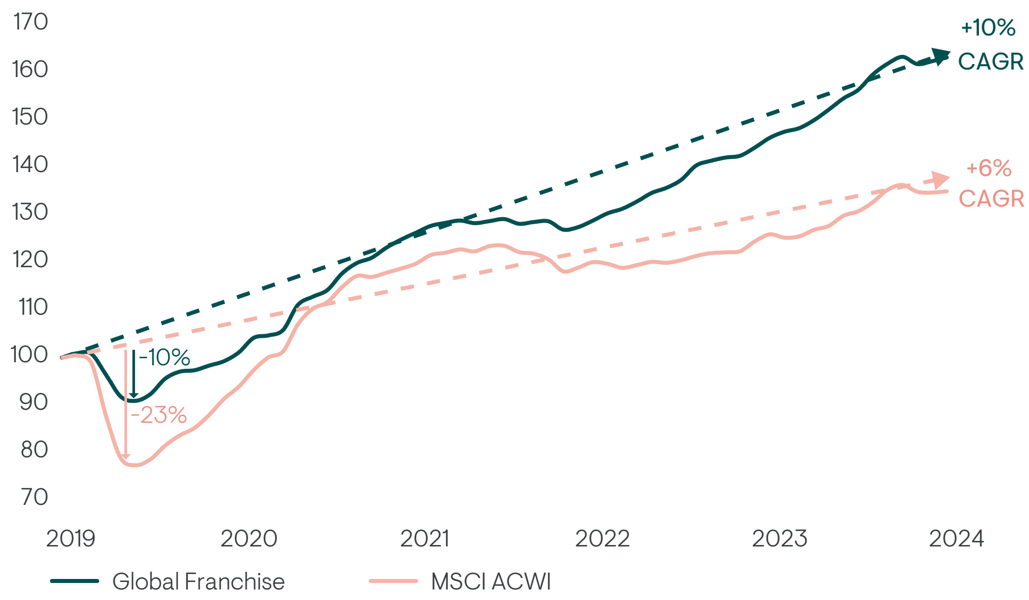
The market-relative derating has been the single largest contributing factor to Global Franchise's relative underperformance in 2024, explaining more than the total underperformance and thereby discounting the stronger and more resilient compounding of earnings that Global Franchise has delivered over the last year and longer term.

Figure 5: Decomposition of total shareholder returns (calendar year 2024)



Past performance does not predict future returns; losses may be made.
Source: Ninety One, FactSet, Bloomberg, 31 December 2024, 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. Headline gross composite performance is used to derive the residual rating change. The difference between gross and net composite performance is then prorated across earnings growth, rating change and dividend yield based on the absolute contribution to TSR. As a result, total TSR aligns with net composite performance.

Figure 6: EPS growth (last five years)



Source: Ninety One, Bloomberg, 31 December 2024, based to 100 at December 2019.
Earnings based on Blended 12-month forward. CAGR: Compound Annual Growth Rate.

Case studies

The divergence between sentiment and fundamentals is also true at the underlying stock level, even for the portfolio's largest relative return detractors over the last twelve months – ICON, Nestlé and Beiersdorf.

Clinical Research Organisation **ICON** suffered after reporting third quarter results that missed expectations. This was attributed to budget cuts and strategic changes by two major clients, reduced vaccine-related activities, and delays to cardiovascular disease trials and biotech activity. As a result, ICON lowered its guidance to reflect a more cautious growth outlook. Investor sentiment was further impacted by President-elect Trump's appointment of Robert Kennedy Jr, a renowned vaccine sceptic, to run the US Department of Health and Human Services. Despite these challenges, ICON continues to take share, biotech funding has improved and the company is still expected to grow from here. We viewed the initial share price fall as an overreaction to one-off or temporary/sentiment-driven factors and took the opportunity to add to our position at a more attractive valuation on a longer-term view.

Nestlé's recent results have been weaker than expected, in part due to cyclical factors such as softer consumer demand and pricing headwinds, but also due to operational challenges and competitive pressure. In August, the company also unexpectedly replaced its CEO. However, we believe Nestlé continues to have an above average category exposure versus staples alternatives through its pet care, coffee and nutrition businesses. In addition, the company announced a number of initiatives at its recent Capital Markets Day to reaccelerate growth, cut costs and drive efficiency improvements that should also enable the shares to rerate from their multi-year absolute and sector-relative lows.

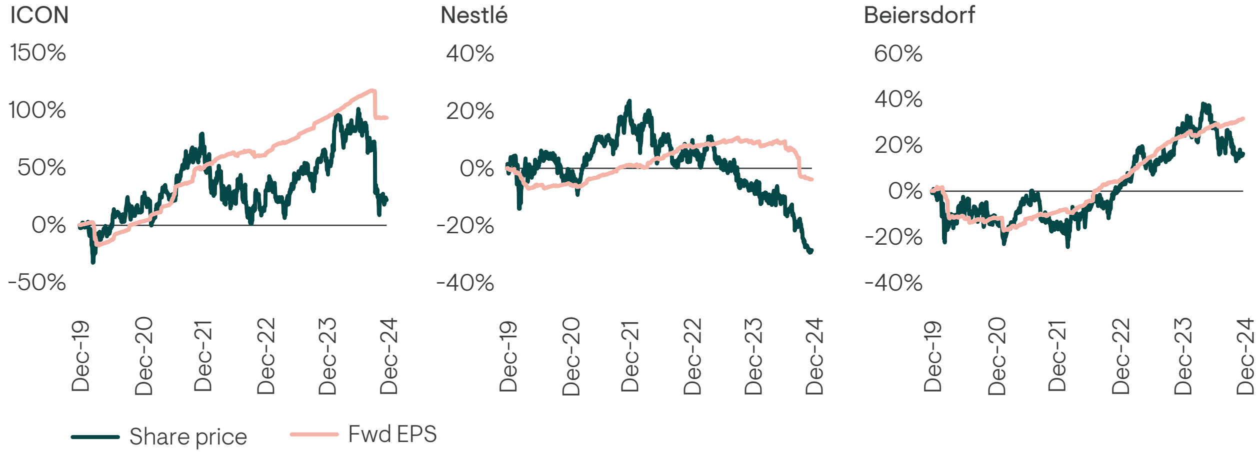
Beiersdorf suffered a derating alongside other out-of-favour consumer staples names and as its premium skincare brand, La Prairie, was hit by a slowdown in China's luxury market. The company continues to gain share in the region however, and at less than 5% of revenue, exposure to the Chinese luxury market remains relatively small in the mix versus peers. Overall, Beiersdorf's results were encouragingly robust in 2024 in the face of a difficult consumer environment and weaker results elsewhere in the sector. Strong momentum in its core Nivea business, a large pipeline of new product launches and a long-term margin opportunity all together provide good cause for optimism looking forward.

—

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.

The common thread between all these companies is that share price movements have disconnected with fundamentals, creating a compelling valuation arbitrage, as shown in Figure 7 below:

Figure 7: Share price vs. Forward EPS (last five years, rebased)



Source: Ninety One, Bloomberg, 31 December 2024. EPS based on blended 12 month forward. EPS and price rebased to zero from 31 December 2019.

The elephant in the room, however, for Global Franchise's relative returns in 2024 was undoubtedly not owning Nvidia. As the leading GPU chip designer globally, it has been a huge beneficiary of society's ever-increasing need for computing power, especially from AI applications. However, we believe there has been a considerable pull forward in demand, set against only modest success so far at monetising AI investment at the application level. Over the medium term, there is a risk that orders from key hyperscaler customers (Microsoft, Amazon, Google, Meta) fall, as they replace third-party GPUs with their own internal chips. There is also a risk that margins come under pressure, not just from increased competition, but also as suppliers (in particular TSMC) look to take more of the economics of the AI boom. Despite the spectacular growth in earnings for Nvidia since the launch of ChatGPT in November 2022, we find the risk too high and funnel of uncertainty too wide for a US$3.4 trillion company trading on 47x forward earnings (at time of writing) to be included in a quality portfolio.

—

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.

Looking ahead

For 2025, we anticipate a more challenging year for equity markets. Sentiment has driven global equities to elevated levels in the short term, but with commensurately higher valuation and concentration risk. The AI theme, while captivating investors, has faced challenges in end market monetisation, raising questions about the sustainability of hyperscaler capex. A more uncertain growth environment, rising geopolitical tensions, and potential policy shifts from incoming President Trump likely introduce added volatility and risk. Those assuming another year of bumper returns from growth and momentum investing might be disappointed, therefore, if growth does not materialize to justify high market valuation multiples.

To navigate this landscape, we believe a focus on leading companies with durable competitive advantages and attractive valuations is best placed. We expect compounding earnings to be a more significant driver of shareholder returns in future and these high-quality businesses, resilient to economic cycles and geopolitical risks, to continue to offer long-term value for patient investors. Furthermore, if the change in presidency proves to be a headwind for falling inflation in the world's largest economy, as many fear, quality businesses are well placed given their pricing power and balance sheet strength.

Those investors who execute correctly on buying businesses that have realizable growth – not the promise of growth – on reasonable valuations with low funnels of uncertainty, should benefit in this environment.

Figure 8: Global Franchise performance history

Calendar (%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
I Acc	9.2	0.9	24.9	-3.6	28.2	16.3	19.0	-18.6	19.4	7.8
Benchmark	-2.4	7.9	24.0	-9.4	26.6	16.3	18.5	-18.4	22.2	17.5
Active return	11.6	-7.0	1.0	5.8	1.6	0.1	0.4	-0.2	-2.8	-9.7

Past performance does not predict future returns; losses may be made.
Source: Morningstar, 31 December 2024. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD.
Inception date 10 April 2007. The performance is based on the OEIC Ninety One Global Select Equity Fund from 10 April 2007 which then merged into the Luxembourg-domiciled Ninety One GSF Global Franchise Fund on 04 July 2009.
Benchmark: At Inception = MSCI World NR; Current Since 1 Oct 2011 = MSCI AC World NR.
The Fund is actively managed. Any index is shown for illustrative purposes only.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments. Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made. Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Specific risks. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Concentrated portfolio:** The portfolio invests in a relatively small number of individual holdings. This may mean wider fluctuations in value than more broadly invested portfolios. **Style bias:** The use of a specific investment style or philosophy can result in particular portfolio characteristics that are different to more broadly-invested portfolios. These differences may mean that, in certain market conditions, the value of the portfolio may decrease while more broadly-invested portfolios might grow.

Important information

This communication is for professional investors and financial advisors only. It is not to be distributed to the public or within a country where such distribution would be contrary to applicable law or regulations. The information may discuss general market activity or industry trends and is not intended to be relied upon as a forecast, research or investment advice. The economic and market views presented herein reflect Ninety One's judgment as at the date shown and are subject to change without notice. There is no guarantee that views and opinions expressed will be correct and may not reflect those of Ninety One as a whole, different views may be expressed based on different investment objectives. Although we believe any information obtained from external sources to be reliable, we have not independently verified it, and we cannot guarantee its accuracy or completeness (ESG-related data is still at an early stage with considerable variation in estimates and disclosure across companies. Double counting is inherent in all aggregate carbon data). Ninety One's internal data may not be audited. Ninety One does not provide advice. Prospective investors should consult their advisors before making investment decisions.

Nothing herein should be construed as an offer to enter into any contract, investment advice, a recommendation of any kind, a solicitation of clients, or an offer to invest in any particular fund, product, investment vehicle or derivative. Investment involves risks. Past performance is not indicative of future performance. Any decision to invest in strategies described herein should be made after reviewing the offering document and conducting such investigation as an investor deems necessary and consulting its own legal, accounting and tax advisors in order to make an independent determination of suitability and consequences of such an investment. This material does not purport to be a complete summary of all the risks associated with this Strategy. A description of risks associated with this Strategy can be found in the offering or other disclosure documents. Copies of such documents are available free of charge upon request.

This material is being sent to you in your capacity as an investor, and should not be reproduced or distributed to any other persons without prior written consent from Ninety One. If you are not an intended recipient you must ignore this material and take no action based on the information in it. Except as otherwise authorised, this information may not be shown, copied, transmitted, or otherwise given to any third party without Ninety One'sprior written consent. Issued by Ninety One, January 2025. Additional information on our investment strategies can be provided on request.

CIS are considered to be generally medium to long-term investments. The value of participatory interests ("unit trusts") or the investment may go down as well as up. The fund is traded at ruling prices and can engage in borrowing and scrip lending. Where performance fees are charged, these fees are calculated and are charged/applied daily. Performance figures are quoted net of fees. Annualised performance figures represent the geometric average return earned by the fund over the given time period, expressed as a percentage. The performance shown is for the portfolio as a whole, but individual performance may differ depending on factors such as initial fees, date of actual investment and reinvestment of earnings and withholding tax where applicable.

Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the fund including any income accruals less permissible deductions from the fund. There are different fee classes of units on the fund and the information presented is for the relevant share class. Fund prices are published on business days on the Ninety One website at www.ninetyone.com, are available in select media publications and on request from the Ninety One Fund Managers (RF) (Pty) Ltd. You can find a Schedule of all applicable fees, and charges including initial and management fees, on Ninety One's website as well as on request from the Ninety One Fund Managers (RF) (Pty) Ltd. Your advisor may charge additional fees. Additional advisor fees may be paid and if so, are subject to the relevant FAIS disclosure requirements. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio or your investment.

The fund may invest in foreign securities or other foreign collective investment schemes (CIS). This can expose the fund to specific material risks, such as higher volatility, potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political, foreign exchange, tax and settlement risks; and potential limitations on the availability of market information. Where the fund invests in the units of foreign collective investment schemes, these may levy additional charges which are included in the relevant TER.

Indices

Indices are shown for illustrative purposes only, are unmanaged and do not take into account market conditions or the costs associated with investing. Further, the manager's strategy may deploy investment techniques and instruments not used to generate Index performance. For this reason, the performance of the manager and the Indices are not directly comparable.

If applicable MSCI data is sourced from MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

If applicable FTSE data is sourced from FTSE International Limited ('FTSE') © FTSE 2025. Please note a disclaimer applies to FTSE data and can be found at www.ftse.com/products/downloads/FTSE_Wholly_Owned_Non-Partner.pdf

CS_745 01/2025 I Acc ROW MACS18561

Australia
Level 28 Suite 3, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana
Plot 64289, First floor
Tlokweng Road, Fairgrounds
Gaborone
PO Box 49
Botswana
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Channel Islands
PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany
Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Hong Kong
Suites 1201-1206, 12/F
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

Luxembourg
2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia
Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Netherlands
Johan de Wittlaan 7
2517 JR Den Haag
Netherlands
Telephone: +31 70 701 3652
enquiries@ninetyone.com

Singapore
138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

South Africa
36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

Sweden
Västra Trädgårdsgatan 15, 111 53
Stockholm
Telephone: +46 8 502 438 20
enquiries@ninetyone.com

Switzerland
Dufourstrasse 49
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom
55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

—

www.ninetyone.com
Telephone calls may be recorded for training, monitoring and regulatory purposes and to confirm investors' instructions.
For more details please visit www.ninetyone.com/contactus