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# Global Franchise Annual Review 2024

Navigating a narrow bull market  
January 2025

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## 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.

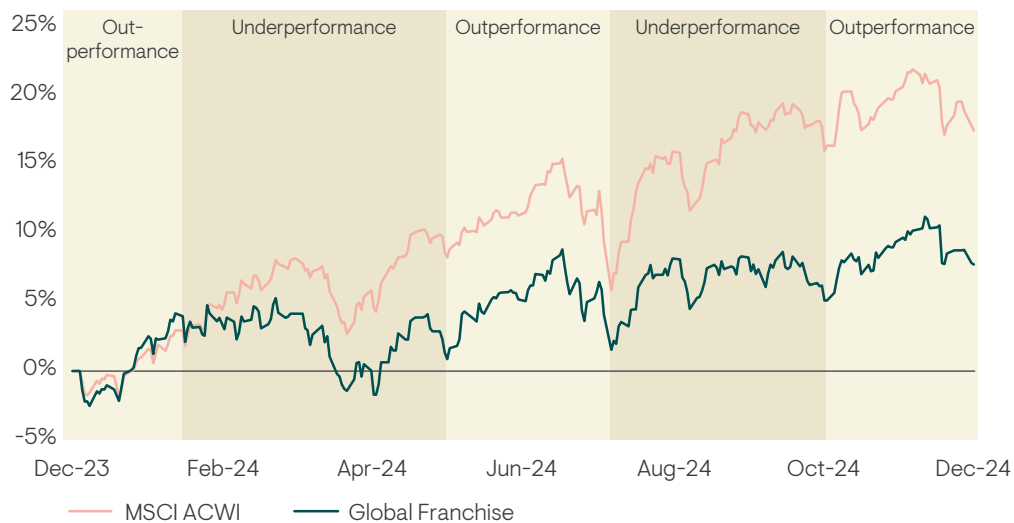
Performance was concentrated in the US, with the S&P 500 reaching record highs and surpassing the 6,000 mark for the first time in December, before falling back slightly at the end of the year. It was the fourth 20%+ year in the last six for the S&P 500. Record-breaking capital inflows into equities 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, December 31, 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.

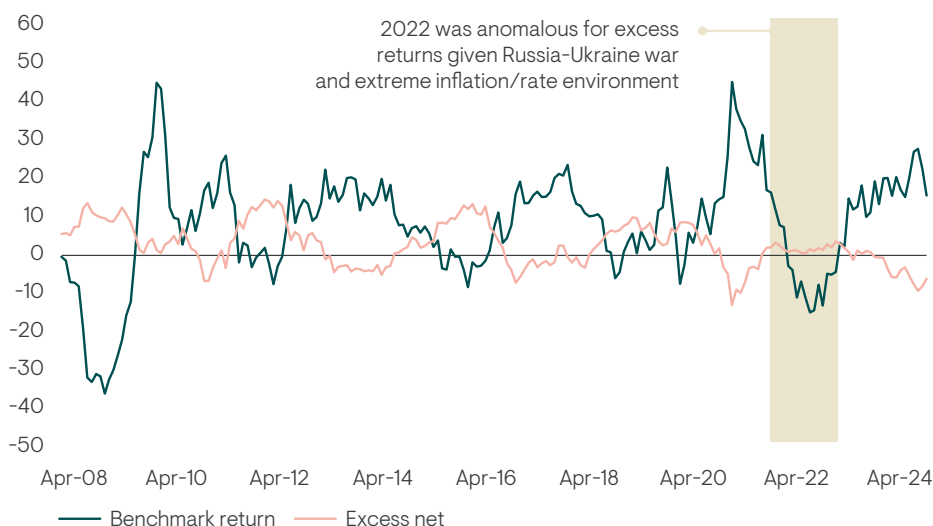
In aggregate, sector allocation contributed positively to relative returns as the portfolio’s overweight positioning in the technology sector and underweight positioning in energy, materials and real estate outweighed the negative impact of not owning banks and the portfolio’s overweight position in 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)**



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Source: Ninety One, as at December 31, 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 October 01, 2011; previously the MSCI World index. Indices are unmanaged and do not include fees. One cannot invest directly in an index.

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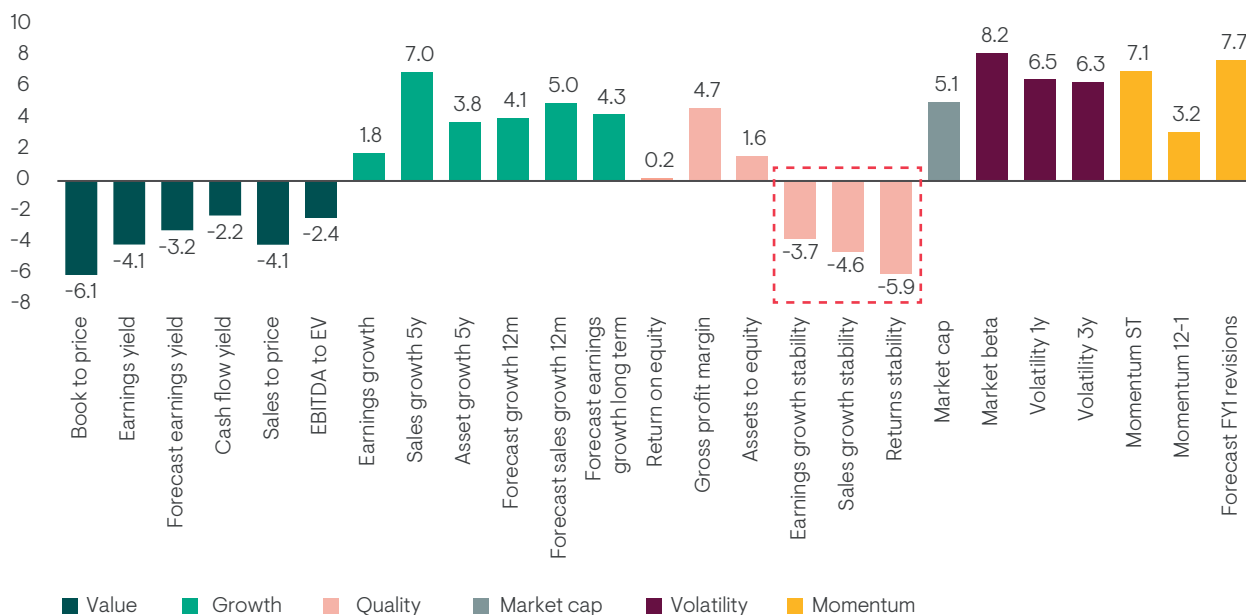
For further information on specific portfolio names, please see the Important information section.

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 materialized. 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 favor 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 November 30, 2024\***

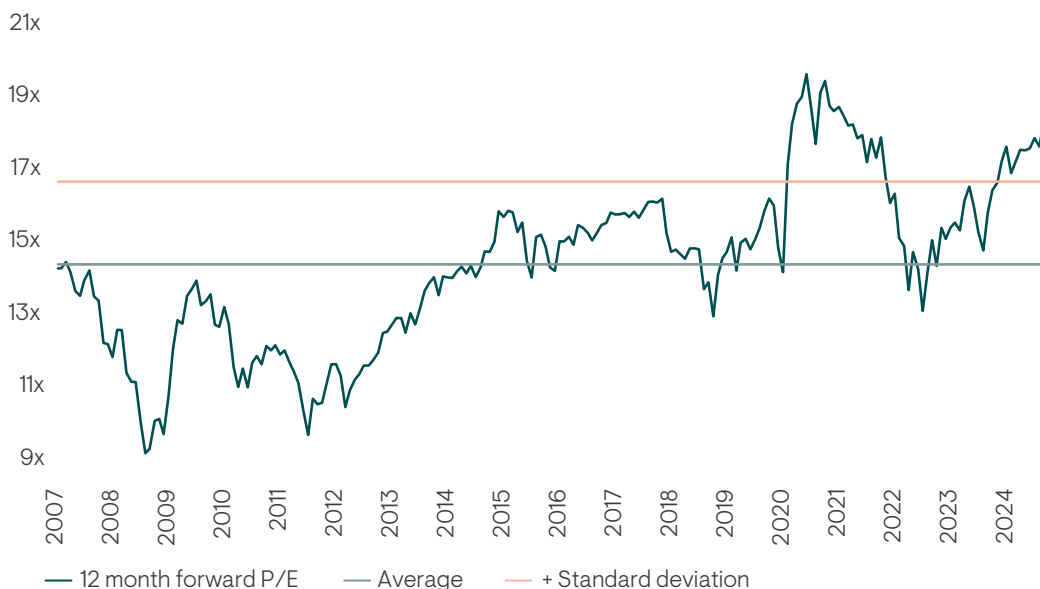


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Source: Ninety One, Style Analytics November 30, 2024. \*Average relative performance vs. MSCI ACWI of the top 50% of companies in each factor ranking. For further information on indices, please see the Important information section.

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**

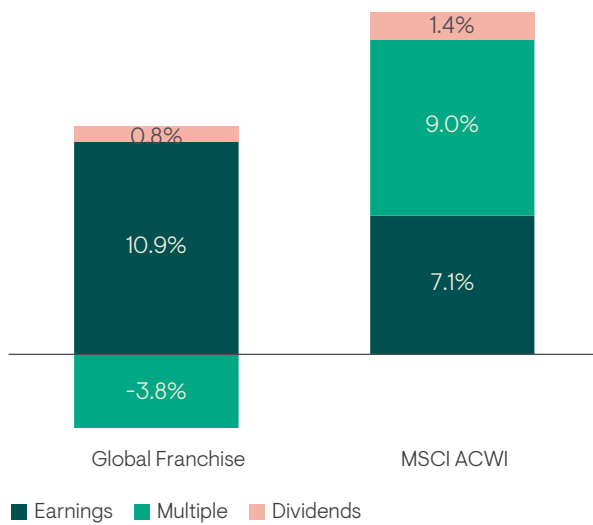


Source: Ninety One, FactSet, as at December 31, 2024. Portfolio inception: May 2007.

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.

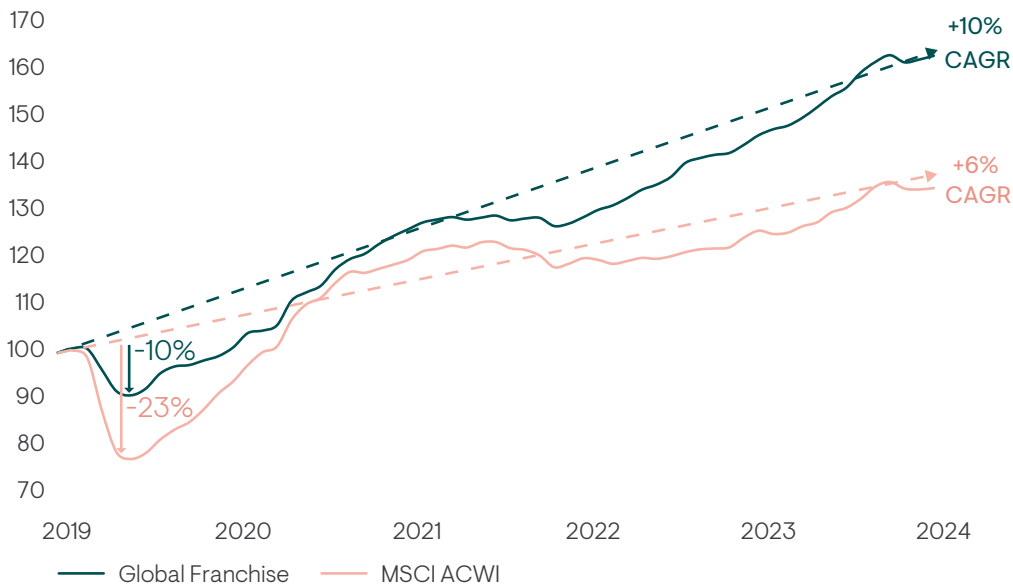
Figure 5: Decomposition of total shareholder returns (calendar year 2024)



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Source: Ninety One, FactSet, Bloomberg, December 31, 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, December 31, 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.

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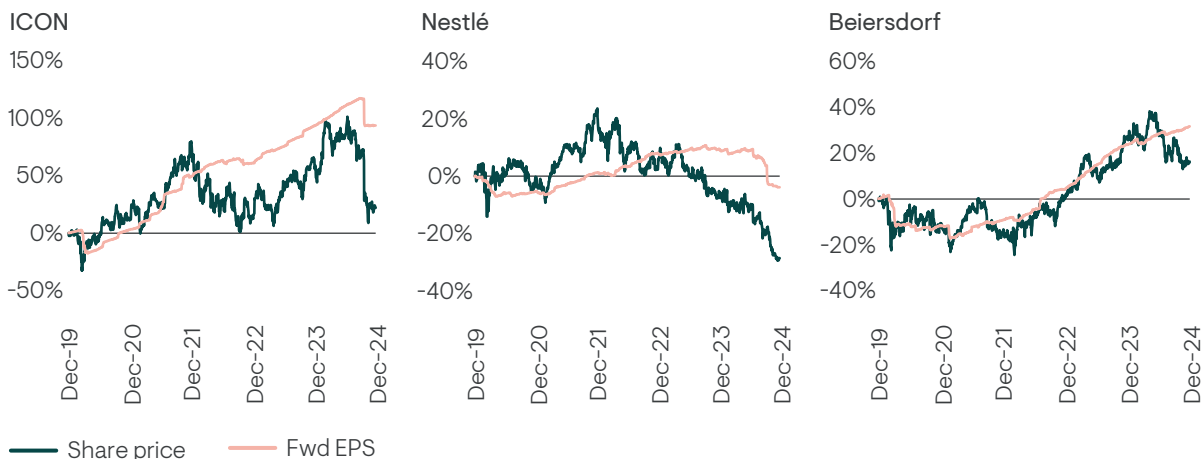
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The common thread between all these companies is that share price movements have disconnected with fundamentals, creating a compelling valuation arbitrage, as shown in Figure 7 below:

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



Source: Ninety One, Bloomberg, December 31, 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 monetizing 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.

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## 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**

%	1 year	5 years p.a.	10 years p.a.	Since inception p.a.
Fund	7.8	7.7	9.5	8.1
Benchmark	17.5	10.1	9.2	6.4
Active return	-9.7	-2.4	0.3	1.7

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

Source: Morningstar, December 31, 2024. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD. Performance start: 10 April 2007. Performance prior to July 4, 2009 is based on a longer existing share class, adjusted to match the fees of this share class. Fund: Global Franchise (I Acc USD), the latest ongoing charges figure = 0.95% p.a.. This fund is actively managed and is a sub-fund of the Ninety One Global Strategy Fund (GSF). Performance is based on the UK-domiciled Global Select Equity Fund from April 10, 2007 which then merged into the Luxembourg-domiciled Global Franchise Fund on July 4, 2009. Benchmark: MSCI AC World Net Return (MSCI World Net Return pre October 01, 2011), is used for performance comparison.

**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.

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## Specific Portfolio Names

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